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**Social Welfare under Authoritarian Rule**  
**Change and Path Dependence in the Social Welfare System**  
**in Mubarak's Egypt**

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A Thesis Submitted for the Degree of Doctor of Philosophy in Political Science

School of Government & International Affairs

Durham University

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## Abstract

This thesis is an attempt to answer the following question: how and why was the social welfare system in Egypt altered under the government of Hosni Mubarak (1981-2011)?

Literatures on the determinants, objectives and structures of social welfare regimes predominantly assume democratic systems of government. They claim that the political influence of organised labour is the most important driving force for the expansion of social welfare systems. This driving force is effective only in open, democratic political arena. This thesis therefore argues that the case of Egypt requires us to consider social welfare regimes within the context of authoritarian resilience.

According to this corpus of work, institutional change under authoritarian regimes can best be explained as a product of government survival strategies, strategies which seek to maximise the interests of the ruling elite, especially their political leaders (rather than the political influence of organised labour which drives social welfare systems in democratic countries). Although the ruling elite under authoritarian rule use social welfare systems in their survival strategies, the strategies differ in their context or ideology. Egypt's first President, Gamal Abdul Nasser, designed and introduced a social welfare system which supported his primary goal of industrialisation. The income-redistribution aspects of his social welfare system were designed to mobilise popular political support for his regime from the middle and low-income classes, especially urban workers. His successor, Anwar al Sadat, relied still further on the income-redistribution function of the social welfare system, as a means of partially compensating those elements of society which could be considered 'losers' from his policy of economic opening (*infitah*). Whereas his policies expanded the economic base of regime support from the working class and the public sector to the growing business elites, he fortunately obtained several external resources, such as economic aid (from the United States, in particular), fees from the Suez Canal and oil exports. By exploiting these resources as sources to expand the social welfare system, Sadat was able to compensate the 'losers'



and to maintain political legitimacy with these lower classes through welfare re-distribution instruments. His strategy strengthened the populist feature of the social welfare system.

This thesis argues that change in the social welfare system during the Mubarak era was bounded by the logic of the ‘social contract’, which was reinforced by the expansion of populist welfare provision during the Sadat era. Sadat’s strategy led to fiscal deficit and prevented economic growth in the Mubarak era. Rationalisation of the programmes was indeed advocated by the international financial institutions and the Mubarak government did appear to initiate reforms. However, when looked at closely, the thesis reveals that these reforms did not result in significant reductions in government expenditures on social welfare as was supposedly intended. Despite a decline in external resources, the regime maintained expenditures, ‘thinning’ out the benefits of the welfare system where it could, but never fully engaging in deep structural reform.

Mubarak’s government was caught in an unresolvable dilemma. Economic liberalisation in general created a new alliance between the ruling elite and the growing class of businessmen. However, the authoritarian regime still relied on a legacy of claims to redistributive justice for its legitimacy. As a decline in external resources cut away the regime’s capacity to deliver this through structural aspects of the economy, the regime increasingly relied on social welfare programmes to alleviate poverty and assuage political grievances. Regime fear of direct political protests increasingly drove social welfare policy, with the regime compensating for the effects of liberalisation in one side of the economy by spending money it could ill afford in another. The strategy was itself a fundamental contradiction and inherently unsustainable. As a result, a decline in distributive resources revealed a failure in the social welfare system – enduring fiscal misallocation and neglecting social problems (such as poverty and unemployment).

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## List of Abbreviations

ASU	Arab Socialist Union
CAPMAS	Central Agency for Public Mobilization and Statistics
CBE	Central Bank of Egypt
CSIS	Comprehensive Social Insurance Scheme
ECES	Egyptian Center for Economic Studies
ELMPS	Egypt Labor Market Panel Survey
ERF	Economic Research Forum
EWf	Egyptian Workers' Federation
ERSAP	Economic Reform and Structural Adjustment Programme
ETUF	Egyptian Trade Union Federation
GUBIFE	General Union of Bank, Insurance and Finance Employees
IFPRI	International Food Policy Research Institute
ILO	International Labour Office
IMF	International Monetary Fund
INP	Institute for National Planning
ISI	import substitution industrialisation
MENA	Middle East and North Africa
MERIP	Middle East Research and Information Project
MoF	Ministry of Finance, Arab Republic of Egypt
MoP	Ministry of Planning, Arab Republic of Egypt
MSI	Ministry of Social Insurance, Arab Republic of Egypt
NDP	National Democratic Party
RCC	Revolutionary Command Council
SAP	structural adjustment programme
SEDO	Small Enterprise Development Organisation
SFD	Social Fund for Development
SIO	Social Insurance Organisation
SME	small and middle enterprise
SOE	state-owned enterprise
UAR	United Arab Republic
UNICEF	United Nations Children's Fund
UNDP	United Nations Development Programme
US	United States
WFP	World Food Programme

# Introduction

## *A. Research Background and Motivations: Social Problems and the 'Arab Spring' in Egypt*

On 25 January 2011 Egyptians began to demonstrate against the long-lasting regime, demanding the resignation of President Hosni Mubarak. Although the demonstration was not well organised, it spread to the whole country. The participants included highly educated members of the upper and middle classes – both women and men. This 'revolution' surprised the world and even Egyptians themselves, "for it was probably unprecedented in scale in Egyptian history, and there had been no early signs that an event of this magnitude would take place" (Amin 2011: 1). On 11 February 2011, the Egyptian authoritarian regime, which had survived for approximately thirty years, collapsed with the resignation of President Hosni Mubarak.

A feeling of euphoria spread throughout the country on hearing the news that the president had stepped down. Egyptians spent the night dancing and singing in the streets, celebrating the end of a regime that, even if a few found it useful for their own purposes, very few really liked and hardly anybody respected (Amin 2011: 2).

When the revolution successfully ended with the resignation of a dictator, most Egyptians felt optimistic about their future.

Their optimistic expectations were however disappointed. In 2012, the first democratic presidential election was held, in which Mohammed Mohammed Morsi was elected President. He was welcomed as the first democratically-elected president in the country, but his policy gradually led to divisions between Islamists and secularists. Whereas his supporters were based on the Muslim Brotherhood and its associated political party – the Freedom and Justice Party, the main leaders of the 2011 revolution were secularists. Although the economic situation was still worse (high inflation rate, low economic growth and unemployment), the government strengthened its authoritarian features:

In Parliament, the Brothers [Muslim Brotherhood] eviscerated legislation that would have introduced more progressive taxation. They spurned a draft labor law that would have guaranteed the right to form independent unions through free workplace elections.



Instead, they proposed to “regulate” strikes and sided with employers in the wildcat work stoppages that persisted after Mubarak’s ejection. In early summer, the International Labor Organization blacklisted Egypt in for failing to live up to the labor conventions to which it is a signatory (MERIP 2013).

Finally, the country experienced a counter-revolution, which overthrew the Morsi government in July 2013. The first democratically-elected president in the country was forced to step down after only one year in power.

Achieving social justice was the most important issue for Egyptians both before and after the 2011 revolution. This is obvious from the fact that the lack of distributive justice was an ‘engine’ for this revolution. Moreover, social justice has not been achieved in the country even after the revolution. Many Egyptian citizens have suffered from various types of social risks, such as unemployment, insufficient wages and shortage of foodstuffs (especially bread). Even after the 2011 revolution, many Egyptians organised strikes and demonstrations to demand improvements of their living standards. However, their demand was not satisfied yet:

Walk down any back alley in the Egyptian capital, or even along one of Cairo’s main thoroughfares, and you’re likely to see scenes of shocking poverty. If the miserable grey buildings that shelter millions of impoverished souls don’t get to you, the scores of street children – tirelessly weaving between cars and Chinese-made motorbikes – will (Feteiha 2013).

Poverty is widespread and many young Egyptians are suffering from unemployment or severe working conditions (such as informal-sector jobs without social insurance coverage).

Some scholars assert that neo-liberal economic policy was the main factor of such social problems (Harrigan & El-Said 2009a). In 2007 the World Bank praised the government’s liberalisation efforts, describing the country as the ‘world’s top reformer’.

Egypt has been offered as a model of the sort canvassed in the 1970s when Mexico was ‘top reformer’ and in the 1980s when Argentina was presented as an example to the world. Mexico fell from grace the debt default of 1982 and Argentina collapsed in ignominy with the crash of 2001, thrusting millions of people into poverty and despair (El-Mahdi & Marfleet 2009: 3).

As the Mubarak government obediently implemented neo-liberal economic policy that was prescribed by the IMF and the World Bank, some scholars call Egypt a ‘laboratory for

neo-liberalism' (El-Mahdi & Marfleet 2009).

However, it should be noted that levels of social expenditure during the Mubarak era were still high. At that time, Egypt still spent more on social welfare programmes than average developing countries in Latin America and East Asia. Social expenditure as a percentage of GDP in Egypt was 4.8% in 1995 whilst average social expenditure during the period of 1972-1999 in Latin America was 2.9% and in East Asia was 2.4% (World Bank 2005: 12). Moreover, the ratio of social expenditure on social policies (including education, health and subsidies) to total public expenditure increased, from 18.1% in 1990/91 to 25.6% in 1999/2000. Simultaneously, the social expenditure per capita drastically increased from £E 145.5 to £E 377.1 (Galal 2003: 2-3).

How did the social welfare system work during the Mubarak era? Despite its practical importance, comparative politics does not pay attention to social welfare in Egypt. Recent research in comparative politics focused more on the behaviour of elites than on the rest of citizens to understand the durability of the authoritarian regime. They were interested in how authoritarian leaders manipulated institutions for their survival in order to change the elites' behaviour, such as elections (Gandhi & Lust-Okar 2009; Lust-Okar 2005), political parties (Brownlee 2007; Magaloni 2008) and legislatures (Gandhi & Przeworski 2006). However, the authoritarian regime was shaken by popular demonstrations, not by elites' tactics. Consequently, political scientists failed to explain the 'Arab Spring' (Gause 2011) and therefore do not have a useful tool to explain the relationship between the authoritarian regime and social welfare provision.

The corpus in welfare-state studies has excluded countries in the Middle East and North Africa (MENA), including Egypt, from the analysis. Although scholars recently began to focus on social welfare systems in Latin America, East Asia and Eastern Europe through comparative perspectives,<sup>1</sup> these works omit the MENA region from their analyses. This is because the existing literature on welfare state is theoretically based on democratic politics. Thus, the literature is mainly interested in Western democratic and newly democratised countries. This bias in welfare

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<sup>1</sup> See Haggard & Kaufman (2008) and Mares & Carnes (2009), for example.

state studies is clear from the fact that studies on social welfare systems in newly democratised countries started after they had experienced democratic transitions. Nonetheless, social welfare systems under authoritarian rule are also important and needed to be analysed.

This thesis is an attempt to answer the following question: how and why was the social welfare system in Egypt altered under the government of Hosni Mubarak (1981-2011), focusing on the relationship between the dynamics of the authoritarian rule and social welfare provision. Social welfare systems were also constructed under authoritarian rule and function in logic differently from those in democracies. Egypt, which maintained an authoritarian regime even after the ‘third wave’ of democratisation (Huntington 1991), is a good case for the analysis of social welfare systems under authoritarian rule. This research provides the readers with a new perspective on social welfare studies, addressing the importance of the survival strategies of authoritarian leaders as a driving force for maintaining and changing social welfare systems under authoritarian rule.

#### ***B. Research Methodology: Historical Institutionalism***

To answer the research question, this thesis uses the new institutionalist approach, which is divided into three sub-approaches: (1) sociological institutionalism, (2) rational-choice institutionalism and (3) historical institutionalism (Hall & Taylor 1996). According to Peter Hall (1986: 19), the concept of ‘institutions’ is used “to refer to the formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy”. This definition includes not only formal organisations but also informal rules and procedures. Although some scholars exclude informal ones from the definition of institutions (Streeck & Thelen 2005), this research uses the concept of institutions as aggregations of both formal organisations and informal rules. This thesis assumes that a social welfare system is an aggregate of ‘institutions’, which include not merely formal organisations (such as social welfare programmes), but informal rule (such as the ‘social contract’<sup>2</sup>). Moreover,

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<sup>2</sup> The argument on the ‘social contract’ is often mentioned in works on contemporary MENA politics and peculiar to MENA politics. Social contracts are established as a result of “an authoritarian bargain, with citizens trading restrictions on political participation in exchange for

as conventional social welfare programmes (such as social insurance and social assistance) have developed less in MENA countries, including Egypt (Silva, Levin & Morgandi 2012: 56), their alternatives – food subsidies, for example – have played an important role in social welfare systems, contributing to poverty alleviation in these countries (World Bank 2002: 81).

Unlike the behaviourist approach, the new institutionalist approach assumes that actors' true preferences are not necessarily represented by their behaviour. In behaviourism, preferences expressed by actors are their real preferences and preferences are revealed through behaviour. In contrast, the new institutionalist approach is interested in the distinction between expressed and real preferences. It addresses the reasons why someone under a particular set of circumstances may make a political choice that is different from others with the same preferences (Immergut 1998: 6-7).

They may believe that the outcome they hope for is not feasible and that they should therefore vote for an alternative that is not their first choice but one that has the advantage of being realizable. Or, the "true" interests of individuals or groups may not be entirely clear (Immergut 1998: 7).

The new institutionalist approach analyses what, particularly what kind of institutions, encourages actors to make a specific choice, not other plausible alternatives.

Among the three institutionalist sub-approaches, this thesis uses the historical institutionalist one for the following reasons. First, historical institutionalism is better at analysing long-term institutional change than other institutionalist sub-approaches and has developed various theoretical frameworks and concepts to do so (see **Chapter 1**).

Second, historical institutionalism adopts an eclectic approach when understanding the role which institutions play in structuring behaviour. Rational-choice institutionalists consider humans to be rational individuals who can calculate their costs and benefits and behave to maximise their benefits. In rational-choice institutionalism, institutions are frames that determine individual's strategic behaviour. In contrast to rational-choice institutionalism, sociological institutionalists

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economic security and the public provision of social services, welfare, and other benefits" (World Bank 2004: 3). The 'social contract' is an informal institution that determines preference of authoritarian leaders and often narrows the range of their choices.

regard humans as fundamentally social beings. “In this view, humans are neither as self-interested nor as ‘rational’ as rational choice scholarship would have it, but are ‘satisficers’ who act habitually” (Steinmo 2008: 126). In this approach, institutions are not frames to determine actors’ behaviour but shape their habits and common sense. Peter Hall & Rosemary Taylor (1996) depicts their approaches as the ‘calculus’ approach (rational-choice institutionalism) and the cultural approach (sociological institutionalism).

Historical institutionalism adopts an eclectic approach between the ‘calculus’ approach and the ‘cultural’ approach.

Human beings are both norm-abiding rule followers and self-interested rational actors. How one behaves depends on the individual, on the context and on the rule. While this statement may seem rather obvious, it has huge implications for how we should study politics. If all three of these variables (individuals, context and rules) are important in choice situations, then there can be no a priori way of knowing what one should study when trying to explain political outcomes (Steinmo 2008: 126).

Because of its eclectic method, historical institutionalism is considered important. As Hall & Taylor (1996: 957) remarks: “Many of the arguments recently produced by this school could readily be translated into rational choice items, while other display clear opening toward the new institutionalism in sociology”. This thesis uses the eclectic method to understand the preferences of actors (Egyptian authoritarian leaders, in particular).

Historical institutionalism addresses the importance of revealing causal mechanisms of institutional changes. Research in the ‘qualitative culture’, which is represented by historical institutionalism, considers the identification of mechanisms as crucial to causal inference.

Mechanisms help in causal inference in two ways. The knowledge that there is a mechanism through which X influences Y supports the inference that X is a cause of Y. In addition, the absence of a plausible mechanism linking X to Y gives us a good reason to be suspicious of the relation being a causal one. ...

Although it may be too strong to say that the specification of mechanisms is always necessary for causal inference, a fully satisfactory social scientific explanation requires that the causal mechanisms be specified (Hedström & Ylikoski 2010: 54).

However, social sciences do not reach a consensus on the definition of ‘causal mechanisms’. James Mahoney (2001a) identifies 24 types of the definitions in the literature. As not only political scientists but sociologists and philosophers of science have proposed their definitions in the last 35 years, the definitions became confusing.

They serve to open the black box of lawlike probability statements that simply state the concurrence or correlation of certain phenomena or events. ... But a central disagreement remains whether causal mechanisms deserve an ontological status distinct from variables (Falleti & Lynch 2009: 1146).

The problem is that most of the works deal with ‘causal mechanisms’ as a synonym with ‘intervening variables’.

If we posit that an explanatory variable causes a dependent variable, a “causal mechanisms” approach would require us to identify a list of causal links between the two variables. This definition would also require us to identify a series of causal linkages, to define causality for each pair of consecutive variables in the sequence, and to identify the linkages between any two of these variables and the connections between each pair of variables (King, Keohane & Verba 1994: 86).

However, as Tulia Falleti (2006: 12) points out, “if causal mechanisms were to be reduced to intervening variables, which could be operationalized and measured using other methods,” the qualitative method “would lose most of its comparative advantage”. Mahoney (2001a: 578) also addresses the shortcoming in his literature review article:

The specification of a mechanism helps researchers make an observed association more intelligible by filling in the black box between independent and dependent variables. Yet, while the notion of mechanism as intervening process is useful, this definition unfortunately does not go beyond correlational assumptions. Causal mechanisms as intervening variables must be identified and analyzed with correlational tools. Indeed, a variable’s status as a “mechanism” as opposed to an “independent variable” is arbitrary. With this definition, then, a correlation is “explained” simply by appealing to another correlation of observed variables.

It could be argued that the causal relations should be considered as ‘mechanismic’ rather than correlational.

Mahoney (2001a) defines causal mechanisms as ‘unobservable entities’ that generate outcomes of interest. This definition enables us to go beyond correlational analysis in two ways:

First, it assumes that the activation of a mechanism actually generates an outcome in the sense that the mechanism is *sufficient* to produce the outcome of interest; that is, if the mechanism actually operates, it will always produce the outcome of interest. This notion differs from most conventional analyses, which typically assume that a causal variable increases or decreases the probability of having higher or lower values on an outcome, net of the effects of all other variables.

The second distinctive feature of casual mechanisms concerns their status as unobserved entities. Causal mechanisms are posited relations or processes that the researcher imagines to exist; they do not refer to any particular set of empirical conditions. As a consequence, they cannot enter into a correlational analysis as an empirical state to be measured across cases for its covariation with some outcome [italics in original] (Mahoney 2001a: 580-581).

However, Falleti & Lynch (2009) point out a deterministic feature of Mahoney's definition and argue that a definition of 'causal mechanisms' should be considered, focusing on the interaction with contexts.

Mechanisms, as portable concepts distinct from the variables attached to particular cases, operate in different contexts. And because mechanisms interact with the contexts in which they operate, the outcomes of the process cannot be determined a priori by knowing the type of mechanism that is at work (Falleti & Lynch 2009: 1148).

According to their definition, although a causal mechanism is portable, it does not mean that it operates in every context. The interaction between the mechanism and contexts determines the outcome. Therefore, the same mechanism in different contexts may lead to different outcomes (Falleti & Lynch 2009). Their definition of 'causal mechanisms' indicates that this thesis needs to analyse how mechanisms of change in a social welfare system worked in the Egyptian context.

To reveal the causal mechanisms, this study uses process tracing. Process tracing can be defined as "the systematic examination of diagnostic evidence selected and analyzed in light of research questions and hypotheses posed by the investigator" (Collier 2011: 823).<sup>3</sup> Charles Tilly also addresses the importance of process tracing as a tool to demonstrate causal mechanisms.

[Researchers can believe theoretical propositions] "not because of large-N statistical

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<sup>3</sup> This analytic process corresponds to what Collier, Brady & Seawright (2010) call causal-process observations (CPOs). Although some scholars use the concept of CPOs in their argument (see Brady (2010), for example), this study consistently refers to 'process tracing' to avoid using two labels for the same research method (Collier 2011).

analyses ... but because for a large range of times, places, and situations they can construct relevant, verifiable causal stores resting on differing chains of causal-effect relations whose efficacy can be demonstrated independently of those stories” (Tilly 1997: 48).

There are two reasons why this study uses process tracing. First, statistical analysis (a large-N study) is not suitable for this study because (1) it deals with long-term institutional change – a change in the Egyptian social welfare system since the 1920s, whose causal relations were not straightforward and need to be traced piece by piece through process tracing; (2) Egypt does not have credible, long-term data on social welfare programmes; and (3) this study analyses the behaviour of the ruling elite, which is difficult to reveal using statistical data. Only process tracing enables us to reveal the causal mechanisms as this study focuses on one case – the social welfare system in Egypt. Second, process tracing provides us with methodological advantages in two areas. (1) Process tracing is able to establish causal direction: ‘if X and Y are correlated, did X cause Y, or did Y cause X?’ “Causal process tracing focused on the sequencing of who knew what, when, and what they did in response, can help address this question” (Bennett 2010: 209). (2) Process tracing enables us to answer a question: ‘If X and Y are correlated, is this because X caused Y, or is it because some third variable caused both X and Y?’

Process tracing can help establish whether there is a causal chain of steps connecting X to Y, and whether there is such evidence for other variables that may have caused both X and Y. There is no guarantee that researchers will include in their analyses the variable(s) that actually caused Y, but process tracing backward from observed outcomes to potential causes – as well as forward from hypothesized causes to subsequent outcomes – allows researchers to uncover variables they have not previously considered (Bennett 2010: 209).

For these methodological advantages, process tracing enables us to reveal the causal mechanisms of change in the Egyptian social welfare system.

### ***C. Outline of the Thesis***

This thesis argues that change in the social welfare system during the Mubarak era was bound by the logic of the ‘social contract’, which was reinforced by the expansion of populist welfare



provision during the Sadat era. In the Sadat era, the government exploited the social welfare system as a source to compensate for the ‘loser of economic open policy (*infitah*) and to obtain the popular support. Although this strategy strengthened the populist feature of the social welfare system, it led to fiscal deficit and prevented economic growth in the Mubarak era. Despite the fact that the populist social welfare system should be rationalised to become a more efficient instrument for poverty alleviation, the Mubarak government was unwilling to implement drastic social reform because it might destabilise the social order (e.g., demonstrations against the government). The social and economic deprivations of most Egyptians in the Mubarak era strengthened the logic of the ‘social contract’, which demanded that rulers should provide social welfare benefits to the ruled in return for their lack of their political liberty. Consequently, the Mubarak government postponed social reform that was essential for poverty alleviation. Furthermore, the social welfare system suffered from fiscal misallocation and neglected social problems (such as poverty and unemployment).

This thesis is divided into six chapters. **Chapter 1** demonstrates, through a literature review, that the roles of social welfare systems under authoritarian rule differ from those in democracies. Under authoritarian rule, the survival strategies of political leaders work as a driving force for the expansion of social welfare systems and are determined by their relationship with the launching organisations (supporters at the time of their regime formation). Second, this chapter considers the relationship between political and economic structural changes and social welfare systems under authoritarian rule. It focuses on two structural changes since the 1970s: (1) neo-liberal economic reform, structural adjustment in particular, and (2) the introduction of multiparty election systems. Third, this chapter shows the theoretical framework, which is based on historical institutionalism, and explains four key concepts which will be used in the following chapters to understand long-term change in a social welfare system under authoritarian rule: (1) critical junctures, (2) path dependence and (3) reactive sequence. Fourth, it discusses research methods.

**Chapter 2** discusses the development of the Egyptian social welfare system since the

inter-war period. It demonstrates that the 1952 Revolution was a critical juncture for the development of the social welfare system and removed obstacles for the development. To understand the dynamics of the social welfare development, this thesis focuses on the economic and political structures and their relationship with the social welfare system. Whereas the social welfare system during the Nasser era mainly aimed to contribute to the industrialisation project, its main role changed during the Sadat era to an instrument for populist distribution. An income gap caused by the economic open-door policy (*infītah*) created the 'have-nots'. To compensate for the 'have-nots', the government expanded the social welfare system and reinforced its populist feature. Such populist expansion was legitimised by a form of 'socialism' that was totally different from what Nasser had manifested – Arab socialism. Although his 'socialism' was a mere manifesto that the government would deliver social welfare benefits by expanding the social welfare system, it reinforced a discourse of the populist social contract and restricted the options that the Mubarak government could take.

**Chapter 3** focuses on how the changing political and economic structures during the Mubarak era influenced the development of the populist social welfare system. This chapter asserts that the social welfare system was driven by its own dynamics regardless of political and economic structural change. The government maintained the populist feature of the social welfare system, avoiding drastic social reform. Social deprivation caused by the political and economic structural change obliged the Mubarak government to maintain the existing social welfare system. While the fiscal deficit meant that the government would be unable to further expand the system, the logic of the social contract (and distributive justice in particular) which was strengthened in the Sadat era made it difficult for the government to concentrate its resources on poverty alleviation by reforming social welfare programmes. The Mubarak government continued to spend heavily on an inefficient social welfare system. The dynamics of the social welfare system eroded its function as a poverty alleviation instrument and resulted in misallocation of resources. This chapter analyses how exactly the role of the social welfare system changed by focusing on two specific social

welfare programmes: (1) the food subsidy programme (**Chapter 4**) and (2) the public employment programme (**Chapter 5**).

**Chapter 6** discusses the implications of social welfare development in Egypt to (1) historical institutionalism and (2) welfare-state studies. First, it discusses the importance of informal institutions under authoritarian rule as well as in democracies by demonstrating that an informal institution of the populist ‘social contract’ made a difference between what the two hypotheses anticipated and the actual changes in the Egyptian social welfare system. Also, it addresses the importance of the original timing and sequence of change in the Egyptian political and economic structures in path-dependent changes in the social welfare system during the Mubarak era. Second, this chapter discusses implications to welfare-state studies. As the existing literature on welfare state has the ‘democratic bias’, it excludes authoritarian cases (like Egypt) from the analysis. This thesis overcomes such bias by revealing that the pattern of social welfare development in Egypt is distinct from Western countries and newly democratised countries in Latin America, Eastern Europe and East Asia. Also, this chapter focuses the concept of ‘equifinality’, which means that there are multiple causal paths leading to the same outcome, by comparing welfare reform in Egypt to that in Western countries. Although causal mechanisms in each of the two cases quite differed, both experienced path-dependent changes in social welfare systems, not drastic welfare reform.

# Chapter 1

## Social Welfare Systems under Authoritarian Rule: The Theoretical Analysis

This research focuses on the roles of social welfare systems under authoritarian rule. The literature on the welfare state regards democratic environments as an essential condition for the development of social welfare systems. Scholars in welfare state studies tend to pay considerable attention to social policy in democracies and consider social welfare systems under authoritarian rule to be trivial. As Gøsta Esping-Andersen (1990: 16) points out, however, “the thesis that democracy leads to larger welfare states confronts the historical oddity that the first major welfare state initiatives occurred prior to democracy and were powerfully motivated to arrest its realization”. In the European cases, this criticism is applicable to the Bismarck government in Germany and the von Taaffe government in Austria, which are regarded as pioneers of legislation for social insurance. Moreover, it does not seem that regime type accounts for development of social welfare programmes in developing countries. The overwhelming majority of social insurance programmes were formed under non-democratic rule. For instance, when disability insurance, which is a social insurance programme “to cover workplace injuries that could leave workers incapacitated”, was first adopted, more than 70% of the 73 countries included in the sample were non-democratic. “Both old-age insurance and sickness insurance show similar patterns, with twice as many autocratic nations instituting these programs as democracies” (Mares & Carnes 2009: 97).

This chapter demonstrates, through a literature review, that the roles of social welfare systems under authoritarian rule differ from those in democracies. In order to achieve this goal, first, it focuses on the differences of dynamics of social welfare systems between the two, reviewing the classical literature on the welfare state (power resource theory, in particular). The existing literature assumes that, in democracies, the expansion of social welfare systems is motivated by organised labour and is justified by the concept of social citizenship. In contrast to democracies, the survival strategies of political leaders work as a driving force for the expansion of social welfare systems

under authoritarian rule and are determined by their relationship with launching organisations (supporters at the time of their regime formation). Second, this chapter considers what impact political and economic structural changes have on social welfare systems under authoritarian rule. It focuses on two structural changes since the 1970s: (1) neo-liberal economic reform, structural adjustment in particular, and (2) the introduction of multiparty election systems. Third, this chapter shows the theoretical framework, which is based on historical institutionalism, and explains key concepts which will be used in the following chapters to understand long-term change in a social welfare system under authoritarian rule.

## 1-1. The Politics of Social Welfare: Democracy vs. Non-Democracy

### *A. Characteristics of the Welfare Development in Democracies: The 'Bottom-Up' Approach*

Although the existing literature on the welfare state is based on the experience of nation-building in Western Europe, it offers several implications for the development of social welfare systems under authoritarian rule. 'Modernisation theory' is the most influential corpus in the theoretical development of the welfare state.<sup>1</sup> According to Reinhard Bendix (1964), the traditional relationship between masters and servants was replaced by the individualistic relationship in the process of modernisation. "Prompted by the economic opportunities and equalitarian ideas of an emerging industrial society, employers explicitly reject the paternalistic world view, but the same constellation of forces also gives rise to new forms of social protest" (Bendix 1964: 2). Such social dynamics prompted a shift in the ruling structure, from the ruler-subject relationship to government ruled by the citizens, where the concept of citizenship was universal. Civil and political rights encouraged citizens to apply pressure on the government through social protest and to obtain their social rights by building the modern welfare state (Bendix 1964; Rokkan 1970).

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<sup>1</sup> As for the modernisation theory, for example, see Apter (1965), Lipset (1959) and Rostow (1971).

Modernisation theory has two implications when considering the relationship between the welfare state and democracy. First, modernisation theory assumes the linear development model of the welfare state, in which industrialisation promoted the development of civil associations and, consequently the expansion of social welfare systems under democratic conditions. Second, citizenship developed from civil rights (rights necessary for individual freedom) to political rights (rights for political participation) and to social rights (universal welfare provision). This thought is based on the concept of 'citizenship' by Thomas H. Marshall (1950). He regards the embodiment of social rights, social citizenship in his terminology, as the final stage of the development of citizenship and defines the rights as "the whole range from the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilised being according to the standards prevailing in the society" (Marshall 1950: 11). Marshall's concept of social citizenship addresses the importance of de-commodification, "that citizens can freely, and without potential loss of job, income, or general welfare, opt out of work when they themselves consider it necessary" (Esping-Andersen 1990: 23). These scholars, basing their ideas on modernisation theory, assume that, as universal suffrage encouraged the citizenry to participate in political activities, social rights were more guaranteed and people were more de-commodified.

The current literature endorses the view of modernisation theorists that political openness promotes the expansion of social welfare systems.<sup>2</sup> Consequently, social welfare systems in democracies are better than those under authoritarian rule, in which democratic instruments, such as parliaments and political parties, are cosmetic (Avelino, Brown & Hunter 2005; Lake & Baum 2001; Przeworski *et al.* 2000). David Lake & Matthew Baum (2001) address the following logic, demonstrating that democracies would provide a higher level of public services than other types of regimes.

Politicians differ not in their goals but in the institutional contexts in which they seek to satisfy their desires. Democratic politicians operate in environments where

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<sup>2</sup> There are several exceptions. Harold Wilensky (1975), for example, asserts that the difference of a polity does not have a significant impact on a level of social expenditure. In his argument, a level of economic development is the most important factor in the expansion of the welfare state.

competition is sufficiently high and the costs of political participation sufficiently low that they are constrained from earning rents. In this context, it is not unreasonable to assume that they are only seeking election. Autocratic politicians operate in environments where the costs of competing for office and political participation are substantially greater, freeing them from tight constraints by the mass of citizens and revealing their true preferences more clearly. When politicians are not tightly bound by the citizens they oversee, they use the monopoly power of the state to earn rents for themselves (Lake & Baum 2001: 618).

According to their argument, politicians in democracies behave so as to maximise their utility as well as those under authoritarian rule do. In democracies, politicians' behaviour increases social expenditure because the politicians need to mobilise a wide range of the population through distributions. In contrast, authoritarian politicians have little incentive to increase social expenditure because they do not care about the population in the absence of effective democratic institutions. In other words, the development of social welfare systems depends on pressure from below in a political structure with effective democratic institutions.

Although the current literature asserts that pressure groups in general play an important role in the expansion of social welfare systems in democracies, the classical literature on the welfare state addresses the critical role of organised labour (and leftist political parties) in the politics of social welfare provision in democracies (the power resource theory). Walter Korpi (1983) demonstrates that political participation in an open political arena enables organised labour to play a pivotal role in the development of social welfare systems. In such an environment, powerful social democratic parties, which are supported by organised labour, lead to the formation of 'institutional' social policies, which benefit a wide range of the population. In contrast, governments with weak working-class parties introduce only residual types of social welfare policies, which cover only the poorest citizens.<sup>3</sup> This is because political actions (rather than economic collective action, including strikes) are the less risky and more rational way to achieve their demands if they are well organised and have strong collective resources. In this context, social democratic parties are more likely to implement the expansion of the social welfare systems to mobilise a wider range of the

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<sup>3</sup> As for the 'residual' type of the welfare state, see Titmuss (1976).

population.

In democratic countries, the conflicts of interest between the classes find expression not only in industrial relations but also in politics. A marked shift of the expressions of these conflicts from labour market to the political arena can take place in countries where socialist parties gain a strong and stable hold over government power and can begin to employ political means to influence the distributive processes in society (Korpi 1983: 181).

The importance of organised labour is obvious from the fact that rights of de-commodification have differently developed in Western welfare states, and that countries with well-organised trade unions develop more generous social welfare systems than those with weak organised labour. In countries where social assistance programmes are dominant, social welfare programmes are not connected to work performance. The states however only have responsibility for those who fail in the market. Thus, the rest of the population are encouraged to apply for private insurance. The result is that the social welfare systems have weak de-commodification effects, strengthening the market's functions – the liberal model. In contrast, welfare provision is based on individuals, not on the family in countries in which universalistic social welfare systems are dominant (such as Scandinavian countries). Furthermore, the level of provision is much higher than the liberal model. The de-commodification of workers has been a priority in their social welfare policies (Esping-Andersen 1990: 26-29).

When examining the causal relationship between strong organised labour and the development of social welfare systems under authoritarian rule, it is necessary to consider other explanations for the relationship. The first explanation is that strong organised labour might be an obstacle rather than a driving force for the expansion of social welfare systems. Authoritarian leaders might regard politically powerful trade unions as potential challengers against their rule and oppress the labour movement. In this situation, authoritarian leaders do not have an incentive to expand social welfare systems. Alexander Hicks (1999) also excludes authoritarian countries from his analysis on the European welfare development in the interwar period because the relationship between governments and organised labour in democracies is different from that of authoritarian regimes.



The second explanation is that the causal relationship might be the reverse of what the ‘power-resource’ model assumes. Whereas the power-resource model thinks that strong organised labour strengthens social welfare systems (Korpi 1983), studies on authoritarianism suggest that social welfare systems are utilised as tools to strengthen the political power of the working class. In Latin America, for example, populist governments (e.g., the Peron government in Argentina) expanded social welfare programmes to gain political support from the working class (O’Donnell 1973). Organised labour under authoritarian rule does not have autonomy from the government, unlike democracies, and tends to be pro-government. In many cases, executives of unions are appointed by authoritarian governments. These members are a privileged class and do not have an incentive to lead anti-government labour as long as their privileges are protected. In this situation, an autonomous labour movement is regarded as anti-government and frequently oppressed by authoritarian governments in the MENA region (Bellin 2002; Posusney 1997). The literature suggests that, in contrast to democracies, the relationship between organised labour and political leaders is determined by political leaders – which organisations they are allied with (i.e., conservative landlords, capitalists, rural peasants or urban workers) and that top-down decisions have a significant impact on the development of social welfare systems under authoritarian rule.

### ***B. The Importance of State Actors in Non-Democracies: The ‘Top-Down’ Approach***

Neo-Marxist works suggest the importance of the top-down approach in the expansion of social welfare systems. Some of them,<sup>4</sup> unlike classical Marxist works, insist that “the state enjoys relative autonomy from the capitalist class; the possibility of the state acting in the general interests of capital is dependent on its distance from particular capitals” (Pierson 2007: 51). The state might embody a policy which sacrifices the individual capitalists’ interests in order to accomplish an ultimate goal – reproducing the capitalist social relationship. Welfare-state policy is also a strategy for the ultimate goal from the neo-Marxist view.

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<sup>4</sup> Although the mainstream neo-Marxists pay more attention to the contradiction within the welfare state than to the welfare-state development (O’Connor 1973; Offe 1984), this argument is not related to my research topic. Therefore, this thesis does not discuss their works.

The social security system is concerned with reproducing a reserve army of labour, the patriarchal family and the disciplining of the labour force. Only secondarily and contingently does it function as a means of mitigating poverty or providing 'income maintenance' ... Thus the possibility of securing a fundamental shift in the structure of class inequality in favour of the working class through administrative and policy reform or working-class political struggle within the state apparatus is severely constrained by the essential form and functions of the state as a capitalist state (Ginsburg 1979: 2).

This view is in contrast to the power-resource theory, which insists that the political strength of organised labour is a driving force for the expansion of social welfare systems.

Although the neo-Marxist approach addresses the idea that the state plays a pivotal role in the development of social welfare systems, it does not answer questions about who is the most important actor in the politics of social welfare within the state. Although neo-Marxists deal with a 'state' as an individual unit for their analysis (Ginsburg 1979; O'Connor 1973; Offe 1984), a 'state' is far from a unit and consists of various actors who maximise their benefits within its structure. This chapter therefore focuses on two state actors: (1) bureaucrats and (2) political leaders of authoritarian regimes. The first actor is bureaucrats. The literature on the welfare state also emphasises the fact that bureaucracies played an important role in the development of social welfare systems in the West European countries (Heclo 1974) and Japan (Calder 1988; Campbell 1979; Pempel 1982). In these cases, these organisations are relatively autonomous from the pressure groups and parliamentary members, which is considered the most important factor in developing welfare-state programmes, such as old age pensions and health care (Orloff & Skocpol 1984; Skocpol & Amenta 1986).

Moreover, some scholars also address the role of the bureaucracy in public policies in the developing world. It is necessary to refer to two important models when we examine the importance of bureaucratic organisations in public policies in developing countries: (1) bureaucratic authoritarianism and (2) the developmental state.

The first model, the model of bureaucratic authoritarianism, is elaborated upon by Guillermo O'Donnell (1973). He creates this model, based on the historical experience of swinging back to

authoritarian regimes in 1960s' Latin America. At that time, Argentina and Brazil experienced "the end of the period of extensive, horizontal industrial growth based on [the] substitution for imports of finished consumer goods" (O'Donnell 1973: 57-58). Simultaneously, technocrats, whose presence in political decision-making had increased during this state of industrialisation, had a significant role in public policies (especially economic policy). They began to regard such industrialisation policies as one of the biggest obstacles to further economic growth. In order to remove such obstacles, they allied themselves with military technocrats and overthrew existing 'populist' regimes. After this coup d'état, technocrats led economic reform initiatives, which were based on neo-liberal thought, to encourage foreign capital investment (O'Donnell 1973). As such economic reform made progress, social welfare programmes were retrenched in Latin America.

The second model is that of the developmental state, which also addresses the importance of autonomous bureaucracies for successful public policies. This model is derived from the historical experience of economic success in East Asia, or the 'East Asian miracle' (World Bank 1993).<sup>5</sup> This model considers an autonomous bureaucracy to be a factor which facilitates a credible commitment to long-term economic development in East Asia.

This element of the strategy, which drew selectively on the experience of Singapore, Korea, Japan, and Taiwan, called for able and well-paid administrators who were insulated to a significant degree from political pressures and empowered to take development initiatives aimed at maximizing the growth of output and employment. In this context, insulation had a particular meaning: such bureaucrats, while being embedded within the system, were less likely to be diverted from the pursuit of long-run goals by political demands that were frequently myopic (Yusuf 2001: 6).

In most developmental states (except Japan), the autonomous bureaucracy is protected from pressure of interest groups and politicians by authoritarian leaders. Although these works do not

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<sup>5</sup> Contents of the miracle can be summarised in the following two points. First, these East Asian countries could keep high economic growth without deterioration in living standards, which was contrary to historical experience and contemporary evidence in other regions. These cases have improved various social development indices, such as income gap and illiteracy rates. Second, they could attain high economic growth as well as social development in spite of their authoritarian characters. These authoritarian governments created several incentives for exports, such as macroeconomic stability, deliberately undervalued exchange rates, and export financing, which promoted investment from foreign countries. Responding to these incentives, foreign investors were willing to invest their projects (World Bank 1993).

necessarily refer to the relationship between autonomous bureaucracies and the development of social welfare systems, bureaucrats intentionally kept social welfare systems undeveloped and distributed resources instead towards education for the accumulation of human capital (Haggard & Kaufman 2008).

However, the causal impact of state bureaucrats on the development of social welfare systems is restricted. Whether bureaucrats remain autonomous from interest groups is determined by the survival strategies of authoritarian leaders. If authoritarian leaders consider autonomous bureaucrats to be necessary for their survival, they make bureaucracy independent from interest groups because their initial goal is to maintain their government and privileges. Moreover, they often take measures to mobilise mass support because they cannot maintain their government unless they sustain the support of the critical subset of the population – whether it is spontaneous or forced by the governments (Magaloni 2006). Mass support increases politicians' incentives to continue staying within the ruling coalition and lessens incentives for potential challengers against the authoritarian government – whether within the ruling coalition or in the opposition – to challenge the incumbents. In addition, as the ruling costs for mobilising mass support are lower than those through coercive ways, authoritarian leaders are willing to create instruments to mobilise mass support.

They must distribute benefits to regime supporters, while withholding benefits from (or otherwise punishing) regime opponents. Benefits include subsidies, cash transfers, public goods, housing and health services, and jobs. The particular mixture of incentives that dictatorships will rely on typically depends on the particular resources the regime has at its disposal (Ezrow & Franz 2011: 56).

Social welfare programmes are also thought to be one of such instruments and utilised as part of their survival strategies by political leaders.

Under authoritarian rule, popular protests function as a signal for authoritarian leaders. Whereas authoritarian leaders form social welfare systems in accordance with their survival strategies, protests signal to authoritarian leaders that they should improve social welfare provision (Forrat 2012). Recent social welfare provision in the People's Republic of China (PRC) offers an

interesting example of this strategy. In the PRC, a failure in social welfare provision for unemployment and pensions triggered widespread protests in the 1990s. In response to the protests, the central government was forced to transfer payments to pensioners and unemployed workers. In 2005, the Hu Jintao administration announced that the central government would take measures to alleviate the burden of the rural population, for example, through direct cash transfer for medical needs. In the PRC, “the provision of acceptable welfare measures is tied up closely with regime legitimacy. Such responses to legitimacy crises are possible because the economy in a macro sense is enjoying rapid growth” (Frazier 2006: 17). Whereas authoritarian leaders increased social welfare provision in response to popular protests in the Chinese case, political leaders might take anticipatory measures because of their fear of popular protests in some cases, especially the Soviet case. Seweryn Bialer (1980: 161) depicts Brezhnev’s social policy as follows:

The responsiveness [by the leadership to certain aspirations] can be described as an anticipatory reaction with regard to workers .... The lessons of worker dissatisfaction in East European countries, and especially the workers’ uprising in Poland, have not been lost on Soviet leaders. In a country where such a high premium is placed on stability, where organized dissent movements are active, where mass terror is absent, where popular expectations have long been encouraged, where the opening of Soviet society to foreigners has made material comparison more possible than in the past, the party must pay more attention to the material satisfaction of the population.

Whereas the survival strategies of political leaders play a pivotal role in the development of social welfare systems under authoritarian rule, popular protests are subordinate in the dynamics of the social welfare systems.

Several scholars recently began to shed light on how social welfare systems have evolved under authoritarian rule.<sup>6</sup> Stephen Haber (2006) proposes a model on the development of

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<sup>6</sup> Formal theorists also began to examine the relationship between the behaviour of political leaders and public policies. The theoretical outcomes suggest the importance of distributive policies, such as social welfare, in non-democratic regimes. Acemoglu & Robinson (2006), for instance, demonstrate that increasing income gaps in autocracies enhance the possibility of collapse of these regimes by utilising a game-theory model. Furthermore, Bueno de Mesquita *et al.* (2003) show the ‘selectorate theory’ and that the difference of political survival strategies between autocracy and democracy has a significant impact on the distribution of public and private goods. The selectorate (S) is “the set of people with a say in choosing leaders and with a prospect of gaining access to special privileges doled out by leaders.” The winning coalition (W) is “the subgroup of the selectorate who maintain incumbents in office and in exchange

authoritarian social welfare systems, conceptualising ‘launching organisations’. To take power, authoritarian leaders need launching organisations, such as the military, a political party, or a royal family. Although the launching organisations play a critical role in coming into power, they might also be a predominant challenger because they control the apparatus which might potentially remove incumbent political leaders, for example, by coup d’état. In the early years of authoritarian rule, political leaders often engage in power struggles with the organisations that co-operated with them to take power (Haber 2006: 696). According to Haber, there are three political equilibria for authoritarian leaders when observing the relationship between the leader and launching organisations. Isabela Mares & Matthew Carnes (2009) use his model to explain the different pathways of the development of social welfare systems under authoritarian rule, from the relationship between authoritarian leaders and their launching organisations.

The first equilibrium is the terror strategy. In this strategy, authoritarian leaders attempt to eradicate the power of their launching organisations through coercive measures, such as terror, torture and purges. When they succeed, they obtain unconstrained power and discretion in the decision-making. Because of the regime’s characteristics, the political leaders exploit national wealth as if it was their asset and have no incentive to distribute it to the population as a social policy (Mares & Carnes 2009: 98). This strategy is rarely used for the following three reasons, however. First, it is a highly risky choice. If the political leaders fail to remove launching organisations from the political arena, leaders of the organisations are likely to aim to remove the political leaders. Second, authoritarian leaders need to create another terror organisation to carry out the terror strategy. Third, this strategy undermines the governing ability of the regime (Haber 2006: 698-700).

The insecurity regimes in Sub-Saharan Africa are thought to be examples of the outcome of

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receive special privileges” (Bueno de Mesquita *et al.* 2003: xi). Whereas their model indicates the qualitative and quantitative difference of social welfare policy between democracy and non-democracy, it also seems to emphasise that the varieties of W’s size lead to a diversity of social welfare programmes among non-democratic regimes. These models suggest the importance of distribution policies, such as social welfare policy, under authoritarian rule, but it is difficult to apply them to qualitative and small-N studies directly.

terror strategies. In this case, political leaders are interested only in exploiting their national resources for their restricted supporters and themselves. They exploit “opportunities for wealth in politics (through access to government revenues, including aid, and bribery opportunities), mining, timber exploitation, larger-scale manufacturing and trade, ‘capitalist’ farming, the higher levels of the bureaucracy, [and] military” (Bevan 2004a: 97-98). As governments do not provide social welfare programmes to citizens in this region, the citizens suffer from widespread poverty, poor health, and a lack of skills and education. In such conditions, temporal declines in agricultural products (for example, because of climate change) often trigger the deterioration of living standards. In urban areas, neo-liberal economic policy eliminated food subsidies and public employment, which increased poverty in many countries. Moreover, these countries are fragile because of high population growth (increasing the dependent population), epidemic diseases (HIV/AIDS, in particular) and climate change. A large proportion of citizens in this region lives in poverty. Consequently, these citizens have to choose (1) social inclusion through their identity or belonging or (2) voluntary (or involuntary) exit. In the former, people may have to acquiesce in inferior status in the community. In the latter, people have to emigrate to other countries (the voluntary exit), or involuntarily exit in the form of death or escape as refugees (Bevan 2004b: 225-230).

The second equilibrium is the co-option strategy. In this strategy, authoritarian leaders attempt to co-opt members of the launching organisations by buying the members’ loyalty to the authoritarian leaders. “The heart of this system is the creation of economic rents by reducing competition through regulatory barriers to entry, such as selectively allocated import permits, preferential tax treatment, or the requirement of licenses or concessions to enter particular lines of economic activity” (Haber 2006: 701). In the short term, this strategy can accomplish high economic growth because the authoritarian leaders distribute rents to a small number of the population. This rent-sharing system might however distort the economic system and tend to misallocate resources (Haber 2006: 701-702). This strategy has distinct implications for the design of social welfare systems. “Consistent with a set of economic policies premised on the creation of

monopolies, we expect to see the establishment of “restrictive” social policies, characterized by narrow coverage and generous benefits” (Mares & Carnes 2009: 99). The restrictive social welfare systems cover a small number of workers in the state-owned or private sector industries. They are promised high levels of benefits out of fear that they will resort to labour activism. Resources for the generous programmes are created by the monopoly rents these industries enjoy (Mares & Carnes 2009: 99).

The neo-patriarchal distribution in the Arab world could be categorised as part of this equilibrium. Hisham Sharabi (1988) demonstrates that neo-patriarchy characterises the social structure of the Arab world. Although the society is superficially modernised, the social relationship in the neo-patriarchy is based on traditional ties (such as religions and clans) unlike modern Western countries.

Despite all ideological appearances, the individual’s basic affiliation in “modernized,” neopatriarchal society is to the family, the clan, the ethnic or religious group. ... In social practice the authority of father, tribal head, and religious leader (rather than considerations of nation or class) determines the direction and object of individual allegiance. This practice strengthens both personal loyalty and dependence, cultivated early within the family , and bolsters them within the larger social whole in the system of patronage and the distribution of favor and protection (Sharabi 1988: 45).

Whereas the patronage system provides members of the groups (including those at the lower rank) with protection and material benefits, it helps to strengthen the loyalty of group members to the group and their identity (Sharabi 1988: 45-48).

The third equilibrium is characterised as organisational proliferation. In this case, authoritarian leaders actively create other organisations to let the new organisations compete with the existing launching organisation(s) and to raise cost of its collective action through the following two mechanisms: “it forces its leadership to coordinate with the leadership of the other, newly created, organizations (which might otherwise come to the rescue of the dictator during the coup); and/or it raises the cost of coordination within the launching organization by aligning the incentives of its membership with the leadership of another organization” (Haber 2006: 702). Because of these characteristics, social welfare provision is provided to the citizens through each organisation. The



most successful example of this strategy was Mexican authoritarianism between 1929 and 2000. A large number of the population had enforceable economic rights and enjoyed generous welfare provision.

The lack of competition, in turn, allowed industrial workers in PRI-affiliated labor unions to have a property right to lifetime job security, as well as rights to a range of social welfare benefits that were not available to the general population, such as health care, subsidized housing, and retirement pensions. Even groups as disparate as Mexico City's collective taxi drivers, who were members of the PRI's National Confederation of Popular Organizations, obtained a special property rights: they were given exclusive routes that prevented the development of a competitive fringe of collective taxis (Haber 2006: 704).

At the same time, this strategy makes social welfare programmes highly fragmented because, as the Mexican case indicates, the strategy is likely to accompany state-corporatism, in which each organisation is separately associated with the authoritarian leader. "This regime model "will, most likely, resemble the 'conservative welfare regimes' of advanced industrialized democracies, where we find policy privileges granted to civil servants and a large number of occupational groups" (Mares & Carnes 2009: 100).

To summarise, this thesis reveals that the logic of social welfare development under authoritarian rule is different from that in democracies. Most scholars in welfare-state studies adopt the bottom-up approach to understand understanding the development of social welfare systems and their works have contributed to the theoretical development in welfare-state studies. However, their theoretical framework is only applicable to democracies, in which freedom of association is guaranteed. In democracies, pressure from below, especially the political influence of organised labour, plays an important role in the expansion of social welfare systems. In contrast, this thesis addresses that mass are generally passive under authoritarian rule and therefore the top-down approach is useful when analysing the development of social welfare systems under authoritarian rule. Although the **survival strategies of authoritarian leaders** are the most critical factors in the development of social welfare systems under authoritarian rule, popular protests occasionally play a important role in the development, functioning as a signal to improve social welfare provisions

under authoritarian rule. Second, the survival strategies of authoritarian leaders are determined by the relationship between authoritarian leaders and their **launching organisations**. Moreover, there are three paths to the development of social welfare systems in accordance with their survival strategies: (1) the terror strategy, (2) the co-option strategy and (3) the organisational proliferation strategy.

Whilst these three strategies are useful to analyse change in authoritarian social systems at a stage of their formation, survival strategies of authoritarian leaders are altered by external factors, such as economic and political systems and other institutions. Since the 1970s, developing countries as well as Western, industrialised countries have experienced the restructuring of social welfare systems, as neo-liberal economic thought became dominant in the countries. In this restructuring, Western democracies implemented social welfare programmes and changed the institutional features in some cases, considering arrangements of existing institutions and pressure groups (Pierson 2001). It could be asserted that a similar retrenchment could be observed in authoritarian developing countries. Since the 1970s, these countries also experienced pressure to move towards political liberalisation. The next section discusses the impacts of the two types of liberalisation on social welfare systems under authoritarian rule.

## 1-2. The Politics of Social Welfare Restructuring: Two Hypotheses

Since the 1970s, developing countries – whether democratic or authoritarian – have experienced several changes that have had a significant impact on social welfare systems. The first change was economic liberalisation and structural adjustment programmes (SAPs) in particular. Economic liberalisation was preferred by international donors, such as the IMF, the World Bank and the US government. In the name of SAPs, international donors requested drastic social welfare reform. Democracies have difficulties in implementing such drastic reform because politicians tend to avoid unpopular policy including drastic social welfare reform. In contrast, as there are fewer obstacles in the absence of efficient democratic instruments, political leaders easily implement the

rationalisation of social welfare systems under authoritarian rule (**Hypothesis 1**). This hypothesis assumes that the role of social welfare systems would shift to a minimal instrument for poverty alleviation. The second change was (quasi-) competitive elections, which provided authoritarian leaders with a mechanism to utilise the social welfare systems for their survival and converts the institutional goal (**Hypothesis 2**). This hypothesis assumes that the role of social welfare systems would change to a ‘machine’ of authoritarian leaders in (quasi-) competitive elections.

#### ***A. Economic Liberalisation, Structural Adjustment and the Welfare Retrenchment***

Since the 1970s, policy makers began to pay more attention to a neo-liberal approach as the failures of import substitution industrialisation (ISI) were revealed. Scholars pointed out several reasons for the failures: (1) poor export performance, (2) inefficiency of resource distributions, (3) underemployment, (4) poor agricultural performance and (5) corruption. The first reason was poor export performance. Although developing countries increased the amount of exports, the main buyers of their goods were neighbouring countries, not Western industrialised countries. This situation did not meet the original goal – to change the trade patterns between the First and Third Worlds, and maintained the need to import finished commodities of capital goods. Although local producers successfully replaced imports, the technology and facilities used to produce the commodities were imported from industrialised countries. Furthermore, protective barriers weakened the competitiveness of their domestic industries and were not effective in promoting exports. Consequently, the balance of payments worsened, although this strategy had partly aimed at improving the balance by reducing imports. The second reason was the inefficient distribution of resources. As trade barriers raised domestic prices, people could buy less than they could in a free-trade regime. This restricted the amount of domestic consumption. Moreover, protective barriers made firms lazy. They had few incentives to develop new technology in their own country, which caused poor product quality and low productivity. The third reason was underemployment. ISI strategies aimed to promote the development of capital-intensive industries. The strategies created few jobs and restricted the growth of a domestic market. The benefits of economic

development were only distributed to restricted groups, such as the owners of the capital and a small group of industrial workers. The fourth reason was that the strategies did not only neglect but penalised the agricultural sector. States in developing countries transferred wealth in the agricultural sector to the modern industrial sector by keeping agricultural producer prices low. This choice reduced farmers' incentives to improve productivity in the agricultural sector. The fifth reason was corruption caused by the strategies. The mechanisms of ISI gave states various types of discretion. The discretion made room for corruption because the strategies required the state's active intervention in the industrial sector (Rapley 2007: 47-52).

In response to failures in ISI strategies, neo-classical theorists accordingly asserted the need to minimise the role of the state for efficient economic development. The neo-liberal tendency of economic policy was accelerated by the formation of conservative governments in the United States and the United Kingdom. This change had a significant impact on the policy of international financial institutions, especially the World Bank, which were thought to cause drastic changes in the Egyptian social welfare system as well.

The World Bank, which in the 1970s, through its "basic needs" approach, had aimed to relieve the misery of the world's poorest citizens through grassroots development projects, suddenly shifted to a neoclassical approach in 1980. Instead of investing in specific projects, the Bank began providing loans to governments facing balance-of-payments difficulties on the condition that these governments agree to implement structural adjustment policies (Rapley 2007: 77).

This neo-liberal policy was dominant in international financial institutions in the 1980s because its opponents were weak both in policy and academic circles (Rapley 2007: 75-79).

In the MENA region, the neo-liberal tendency was embodied in the form of structural adjustment programmes (SAPs). SAPs are the most powerful 'engine' for economic liberalisation and have had a significant impact on the development of social welfare institutions in MENA countries. SAPs comprise conditions the recipient governments must agree to when they need to borrow money from the World Bank and IMF. Although the contents of SAPs differed and were adjusted in a specific country, the ingredients became similar, along the lines of the 'Washington

Consensus' (Nonneman 1996a: 7). The features can be divided into ten categories: (1) fiscal discipline; (2) reordering public expenditure priorities; (3) tax reform, enlarging the tax base and reducing marginal tax rates; (4) liberalisation of interest rates; (5) a competitive exchange rate; (6) trade liberalisation (e.g. low tariffs and elimination of non-tariff barriers); (7) liberalisation of inward foreign direct investment, (8) privatisation of state-owned enterprises; (9) deregulation; and (10) legal security for priority rights (Williamson 2003). SAPs aim at reviving economic growth in the long term through reducing the role of the state in the market and restructuring the economy in favour of the private sector.

What impact does neo-liberal economic reform have on social welfare systems under authoritarian rule? The existing literature suggests that neo-liberal reform, including SAPs, would lead to two significant changes in social welfare systems under authoritarian rule: (1) a decline in social expenditure and (2) the rationalisation of the social welfare systems.

The first change is a decline in social expenditure. As neo-liberal economic reform encourages governments in developing countries – whether democratic or authoritarian – to open the economy to foreign investments, a large number of economic losers are created, who are likely to put pressure on governments to obtain compensation for their economic loss via high-level welfare provision. Whereas this process has a positive influence on an increase in social expenditure in new democracies, it leads to the retrenchment of social welfare systems under authoritarian rule. In new democracies, the pressure of economic losers for social compensation gives the governments an incentive to obtain support from the losers by increasing social expenditure. This expansion of social welfare systems in new democracies is caused by effective democratic instruments (such as free elections, open legislatures and the freedom of association), by which economic losers can organise movement for compensation and exert pressure on ruling elites. In contrast, the lack of effective democratic instruments restricts popular influence on public policy under authoritarian rule. Under authoritarian rule, people do not have effective measures to represent their complaints about economic loss peacefully. Also, the cost of their collective action is quite expensive, because

these actions are generally restricted by authoritarian governments (Adsera & Boix 2002; Avelino, Brown & Hunter 2005). Neo-liberal economic reform, SAPs particularly, would therefore lead to the retrenchment of social welfare systems under authoritarian rule.

The second change is the rationalisation of social welfare systems. Although the IMF and the World Bank point out the inefficiency of the social welfare system in recipient countries and argue for the downsizing of social welfare expenditure, these organisations also offer technical and administrative advice on the rationalisation of social welfare programmes to improve their quality. Whilst these organisations had considered social welfare programmes as mere tools for economic growth and paid little attention to them until the beginning of the 1990s, their attitude has gradually changed. Since the 1980s, UNICEF has put an emphasis on the importance of considering humanitarian issues during SAPs, showing a slogan of ‘adjustment with a human face’. It focuses on the worsening situations for women and children in many cases in developing countries since the SAPs. At the same time, this organisation claims that international financial institutions should take into consideration the impact of SAPs on vulnerable people (Jolly 1991).

Reacting to this criticism, the IMF and the World Bank now attempt to assess the impact of SAPs on the poor and to take measures to ease these impacts. The World Bank (1990) referred to the importance of government measures towards poverty alleviation for the first time in its official publications since SAPs started. It also proposes reform plans for social welfare systems in developing countries. Generalized subsidies, for example, are considered an example of inefficient social welfare programmes. The IMF and the World Bank express concern about their negative impact on the implementing countries’ budgets and domestic economies. The World Bank proposed that the SAP-implementing governments should transform generalised subsidies into targeted safety nets because otherwise the financially secure enjoy more subsidies than the poor. The report proposed alternatives, such as a quota of subsidised food staples to households, food stamps, in-kind transfers and direct cash transfers, which do not disturb market mechanisms (World Bank 1990: 93). More recently, the World Bank began to participate in assessing poverty-reduction

strategies (PRS), developed by the recipient governments through partnerships with civil society. PRS papers describe the financial needs to improve macroeconomic and social protection policies for economic growth and poverty alleviation. The World Bank finances Poverty Reduction Support Credits and Development Policy Credits to help governments implement PRS.<sup>7</sup>

Authoritarian rule provides leaders with a favourable environment to implement drastic reform. According to Deepak Lal, for example, non-democracies are able to implement unpopular economic reform more effectively than democracies. In democracies, the government is under constant pressure to avoid economic reforms painful for citizens in democracies, in which it needs to deal with various competing interest groups. This environment makes the government adopt irrational policies in democracies. He argues that harsh reforms are compatible with non-democratic regimes (Lal 1997). This policy rationalisation is also thought to be in accord with the survival strategies of authoritarian leaders. The policy rationalisation alleviates poverty, which eases citizens' complaints about authoritarian governments and, therefore, enhances their ability to continue to rule. This mechanism is supported by several pieces of research dealing with the relationship between citizens' living conditions and the possibility of the dictators' overthrown – for example, Acemoglu & Robinson (2006). Gerd Nonneman also mentions that “domestic political calculations may lead a regime or a leader to opt for policy of economic liberalization as a symbol of distance from preceding regime. It may, in other words, be a way of gathering legitimacy as a ‘new born’” (Nonneman 1996b: 37).

The best example was Pinochet's Chile. After the 1973 coup d'état and the collapse of Allende's socialist government, Augusto Pinochet appointed many Chicago-educated monetarists as policy advisors. Their neo-classical theories were gradually put into practice. They recommended a programme of monetarist shock therapy to resolve balance-of-payment problems in the country. At the same time, the social welfare system in the country drastically changed. The old-age pension programme, for example, significantly changed and began to cover not only civil

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<sup>7</sup> See the World Bank's website (<http://go.worldbank.org/F7F0ODVEJ0/>).

servants but all workers. Further reform was implemented in the 1980s. In 1980 the government introduced a new savings-based pension programme, which eliminated employer contributions and forced workers to save at least 10% of their taxable income in their personal accounts. After 1981, this programme became mandatory for all dependent workers. Since the revision, the new pension programme is administered by private funds and workers can freely choose the funds (Castiglioni 2001: 40). The pension programme also has a system to guarantee minimum income:

The law also provides that the state should grant a minimum pension to all insured workers with 20 years of contributions, so that if a worker reaching retirement age does not attain the minimum pension level, the state will make up the difference (Castiglioni 2001: 41).

The changes in the Chilean social welfare system under Pinochet's rule have two political implications: (1) the ruling coalition and (2) the importance of social welfare in a neo-liberal economy. The first implication is that the regime changed its ruling coalition (from a coalition with leftist groups, such as urban workers, to that with industrial capitalists) along with the introduction of neo-liberal economic and social policy. The Pinochet regime was categorised as bureaucratic authoritarianism. This bureaucratic-authoritarian regime aimed at the 'normalisation' of the economy, based on support from industrial capitalists. Along with the normalisation, the regime promoted capital accumulation, which benefited the large oligopolistic private capital. At the same time, it attempted to exclude a previously active popular sector from the national political arena. "This political exclusion [was] achieved by destroying or capturing the resources (especially those embodied in class organizations and political movements) which [had] supported this activation" (O'Donnell 1979: 292).

The regime involved "closing the channels of access for the representation of popular and class interests. Such access is [was] limited to those who [stood] at the apex of large organizations (both public and private), especially the armed forces and large oligopolistic enterprises (O'Donnell 1979: 293).

In other words, the formation of a bureaucratic authoritarian regime was an attempt to eliminate the political influence of the launching organisation – workers and other leftist groups.



A similar tendency could be found in the transformation of authoritarian rule in some MENA countries, including Tunisia and Algeria. Neo-liberal economic reform was promoted by a shift in the ruling coalitions:

Beginning earlier, but accelerating in the 1990s, the populist ruling coalitions in the Arab republics have been replaced by coalitions that still include the military, but rely more on commercial agriculture, private industrialists, export sectors, and upper-echelon state agents who have moved into the private sector usually with the benefit of privatized state assets (King 2009: 7-8).

The second implication is that the new type of authoritarian regime still needed minimal social welfare provision, although maintaining fiscal discipline was equally important. The ruling elites and its allied members (such as business group members) had two reasons to maintain the minimalist social welfare system for their survival. Firstly, a minimalist social welfare system is useful for economic growth because it improves human capital, which is a basis of economic development, in the country by improving children's nutritional and educational conditions (Silva, Levin & Morgandi 2012: xi). Secondly, the new authoritarian regimes were eager to create various poverty alleviation programmes. The World Bank has also addressed poverty alleviation in developing countries since the 1990s (World Bank 1990). This is because poverty alleviation would contribute to the stabilisation of society. This is why authoritarian leaders maintain minimalist social welfare systems even after neo-liberal economic reform.

When focusing on qualitative changes to social welfare systems during and after neo-liberal economic reforms (SAPs, in particular) under authoritarian rule, it should be noted that neo-liberal economic reform does not lead to a mere decline in social expenditure. It also promotes the rationalisation of social welfare systems.

**Hypothesis 1** – Policy Rationalisation Hypothesis: Authoritarian leaders would rationalise social welfare systems.

The rationalisation of social welfare systems is thought to be a rational choice for authoritarian leaders on two counts. First, the rationalisation is generally managed with the World Bank's technical support and advice to SAP implementing governments. Obeying the proposal enhances

the reputation of the authoritarian leaders among international donors, such as the United States, the World Bank and the IMF. Second, authoritarian leaders can afford to invest in projects for economic growth and industrialisation by rationalising social welfare systems. This change would benefit the new supporters (i.e., business elites) and enable authoritarian leaders to reinforce a basis of their regime by strengthening a tie with the new supporters. Consequently, it could be asserted that neo-liberal economic reform would encourage authoritarian leaders to replace existing inefficient programmes with new programmes, which are more efficient for poverty alleviation (i.e., rations of food staples, food stamps, in-kind transfers and direct cash transfers).

### ***B. Political Liberalisation and Changes of the Social Welfare System under Authoritarian Rule***

The second change in authoritarian countries was political liberalisation. Since the 1970s, authoritarian countries have experienced partial political liberalisation, allowing opponents to organise political parties. Partial political liberalisation provided opponents with a chance of democratisation. Since the Carnation Revolution in Portuguese occurred in 1974, the ‘third wave’ of democratisation has had a significant impact on authoritarian countries and increased the number of authoritarian countries that experienced democratic transition. In the early 1990s, many people around the world felt optimistic about democratic change, witnessing the withdrawal of military leaders from Latin America, a collapse of the Soviet Union and the end of apartheid in the Republic of South Africa.

As the third wave spread to Eastern Europe, the Soviet Union, sub-Saharan Africa, and elsewhere in the 1990s, democracy promoters extended this model as a universal paradigm for understanding democratization. It became ubiquitous in U.S. policy circles as a way of talking about, thinking about, and designing interventions in processes of political change around the world (Carothers 2002: 6).

The ‘transition paradigm’ became dominant in academics and communities of policy makers in developed countries, especially the United States.

Despite the expectations about democratisation, many countries in the developing world remained authoritarian or went back to authoritarian rule in the mid-1990s.

Many countries that policy makers and aid practitioners persist in calling “transitional”

are not in transition to democracy, and of the democratic transitions that are under way, more than a few are not following the model (Carothers 2002: 6).

Even countries controlled by dictators are more likely to have effective democratic instruments, through which opponents challenge the incumbent dictators. Current works in political science gradually deviate from the 'transition paradigm' and label this type of authoritarian regimes in the 'grey zone' as 'competitive authoritarianism' (Levitsky & Way 2002, 2010), 'semi-authoritarianism' (Ottaway 2003) or 'electoral authoritarianism' (Schedler 2006). The most important instrument among these regimes in the 'grey zone' is (quasi-) competitive elections.

Why do authoritarian leaders need to implement quasi-competitive elections? The factors could be divided into two: international factors and domestic factors. The first factor is changes in international pressure on democratisation. Western foreign policy changed with the end of the Cold War. Western countries, the United States in particular, encouraged authoritarian countries to democratise through military and diplomatic pressure, and foreign aid. In the 1990s Western government began to provide authoritarian countries with conditional loans that would assist free and fair elections, and the protection of human rights. Thus, democracy was embedded in Western foreign policy. This change raised the external cost of authoritarian rule and encouraged elites in authoritarian countries to bring democracy to their countries. Consequently, authoritarian regimes introduced multiparty elections, which made retrogression to the single-party system costly (Levitsky & Way 2010: 17-20).

The second factor is the domestic reason that implementing quasi-competitive elections is a rational choice for authoritarian leaders. Firstly, quasi-competitive elections enable authoritarian leaders to co-opt elites who could be challengers to the regime. Beatriz Magaloni (2006) explains how quasi-competitive elections give incentives to members of the ruling party with reference to the Mexican case.

Autocratic regimes reward with office those [lower-level] politicians who prove most capable in mobilizing citizens to the party's rallies, getting voters to the polls, and preventing social turmoil in their districts. The autocracy thus forces politicians to work for the benefit of the party and to have a vested interest in the survival of the regime (Magaloni 2006: 8).

Secondly, winning elections has a signalling effect on elites within the ruling coalition. Barbara Geddes (2005) suggests that elections under authoritarian rule work as a signal of the regime's strength through super-majorities. This signal reveals the resource imbalance between the regime and the potential challengers and makes them reluctant to organise active movement against the authoritarian regime. Her hypothesis is applicable to the Vietnamese case (Malesky & Schuler 2008). Thirdly, elections function as instruments to co-opt opposed groups. Ellen Lust-Okar (2005) demonstrates that authoritarian governments often exploit electoral systems to divide oppositions. Some opponents are permitted to enjoy spoils and privileges and participate in policy-making and legislative elections. Others are illegalised. This division is based on their ideologies or the size of their organisations. Legalised opposition groups become reluctant to cooperate with illegal counterparts because of the incentives to stay in this position under this condition. Whereas these functions of quasi-competitive elections mainly influence elites, elections under authoritarian rule have a significant impact on the citizenry as well.

The function that most scholars point out is patronage distribution to voters. As authoritarian leaders monopolise resources, voters tend to support incumbent leaders regardless of their preferences.

Particularly when the state controls a vast public-sector and state-dependent private economy, citizens from all economic strata remain dependent on the state. ... [B]ecause elections are generally about access to state resources, rather than a competition over the rules of the game, voters tend to support candidates who have close relations to incumbent elites, and the majority of elites who choose to run in (and win) elections are those who are relatively close to the regime (Gandhi & Lust-Okar 2009: 412).

Magaloni (2006) names their behaviour as the 'tragic brilliance' of the regime: "Citizens' choices are free, yet they are constrained by series of strategic dilemmas that compel them to remain loyal to the regime" (Magaloni 2006: 19). It could be asserted that social welfare programmes are also exploited for patronage purposes.

This strategy through social welfare programmes is found in Venezuela and Turkey, for example. The first case was Venezuela under Chávez's rule. Venezuela's regime under President

Hugo Chávez was categorised as authoritarian, although he was elected by a democratic election. Since he was elected to the Presidency in 1999, Venezuela had shifted from partial semi-democracy towards competitive authoritarianism, concentrating all power in the executive branch into the president (Hidalgo 2009: 79).

His years in office have been marked by executive encroachment and control over all manner of state institutions, a steady erosion of institutional checks and balances upon executive power and, ultimately, a withering away of democratic governance (Sanchez 2008: 325).

Under his rule, important decisions were made by president decrees rather than legislation. In 2006 the Venezuelan parliament gave President Chávez the special power to legislate by presidential decrees for eighteen months. During the period, the president issued 66 decrees (De Venanzi 2010: 59).

Despite the authoritarian character of his regime, President Chávez obtained support from marginalised people in democratic politics, such as the vulnerable, by exploiting the discourse of ‘socialism of the twenty-first century’ and providing welfare programmes to them. During his presidency, social expenditure as percentage of GDP drastically increased, from 23.6% in 1998 to 30.97% in 2006 (De Venanzi 2010: 68). President Chávez created social welfare programmes that he labelled ‘missions to save the people’.<sup>8</sup> The programmes included healthcare in the poorest areas (Misión Barrio Adentro), a programme to reduce the illiteracy rate (Misión Robinson), and a food subsidy programme to supply cheap foodstuffs directly to the poor by creating discount stores (Misión Mercal). According to financial statements by the state-owned oil company, the fund spent more than US\$ 5 billion (approximately 4.5% of GDP) on these programmes in 2004 (Penfold-Becerra 2007: 63-65).

The government was also willing to deliver identification cards to citizens, especially the vulnerable, because vulnerable people tend to support President Chávez and identification cards are required for elections (Misión Identidad).

Chávez’s ability to link the social benefits of the programs with his need to assure the

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<sup>8</sup> As for the evaluation of these programmes, see España (2008).

political mobilization of his popular base through the Misión Identidad became the cornerstone of his political strategy. Although a large portion of the population supported the opposition, Chávez was able to target low-income voters by using the misiones to redistribute resources and regain political allegiance. The lack of institutional constraints also allowed the government to monitor voters' behavior and exercise credible political threats to citizens through the Lista Tascón [a list of the signatures of citizens who petitioned for the recall of President Chávez between 2003 and 2004], increasing the exit cost for those potential voters thinking about shifting allegiance to the opposition (Penfold-Becerra 2007: 75).

Resources for these programmes were raised from oil windfalls received by the state-owned oil company and were controlled by the president, not by the central bank or the parliament. Therefore, the government did not need to observe the government's budgetary rule. For example, it helped adults who had not graduated from high school to complete their high school (Misión Ribas). This programme was administered by the Ministry of Oil and Energy, not by the Ministry of Education, and was financed directly by the state-owned oil company. Resources for the programme were distributed more to areas in which the majority were pro-Chávez voters (Penfold-Becerra 2007: 73-79). Manuel Hidalgo (2009) characterises his rule as 'petro-socialism'. Chávez's survival strategy was to mobilise marginalised people through generous welfare provision to compete with oppositions, addressing the concept of 'socialism of the twenty-first century'.

The second case is Turkey under Erdoğan's rule. Although he was also democratically elected to Prime Minister (and President, later), his rule is also criticised as authoritarian by the media.

Thousands of police and hundreds of prosecutors and judges have been moved from their positions since the corruption investigation began in late December. A new law has increased the government's power over the judiciary, even though key provisions were thrown out by the constitutional court. The court also found Mr Erdogan's ban on Twitter, which the government previously maintained in defiance of an order by a lower tribunal, to be without legal basis (Dombey 2014).

Prime Minister Erdoğan banned access to YouTube and Twitter. The current authoritarian characters triggered protests against the government in 2013.

Unlike the first, Venezuelan case, the Erdoğan government took neo-liberal measures. When Prime Minister Erdoğan took office in 2003, Turkey's economy was faced with a crisis: "The

Turkish lira was devalued by nearly 50%, devastating the savings and incomes of, by some estimates, 95% of the population, and the poverty threshold fell below what it had been in 1994” (Patton 2006: 513). The government therefore tackled macro-economic stabilisation in accordance with the IMF's proposal. To win the general election in November 2002, his ruling party (AKP) mentioned the importance of social safety nets for those who were damaged by the economic crisis, but after the election the AKP government willingly eschewed populist measures, stabilising the macro-economy (Patton 2006: 513-515). Indeed, AKP grew based on support from the conservative, pious business elite, who supported Erdoğan’s economic reform. “It is this socially conservative but economically liberal business elite that forms the backbone of the AKP’s support” (Barkey & Çongar 2007: 66). The AKP government successfully forms a broad coalition.

This unprecedented alliance brought together pro-Islamic reformists, bankers and financial professionals, and owners of small and medium-sized businesses working in sectors that were relatively independent of the state. The new alliance defied traditional party loyalties, winning the support, for instance, of both resolutely secular and staunchly Islamist business associations (Tepe 2005: 71).

Because of the government character, the present government’s approach to welfare reform is an amalgam of liberal residualism and social conservatism. “This conservative liberalism with an Islamic touch dominates the reform process without a serious countervailing opposition from the advocates of a rights-based approach to social policy” (Bugra & Keyder 2006: 213).

The government reinforces residualist characteristics of the social welfare system, exploiting the system for elections. There are several features when focusing on Erdoğan’s strategy through social welfare provision. The first feature is to exploit the social assistance programme, delivered by the Social Solidarity Fund, to mobilise those who were excluded from the Bismarckian social insurance programme in a way similar to Hugo Chávez’s. When Prime Minister Erdoğan took office, the government began to increase expenditure on the programme, from only 1.376 billion lira (US\$ 560 million) in 2002 to 30.4 billion lira (\$12.4 billion) in 2014, and justified the policy by addressing the necessity to ‘achieve EU averages’ (Cetingulec 2015)

The coverage of the Green Card [a means-tested medical assistance scheme] was expanded, with improved access to health benefits, and conditional cash transfers to

poor families based on both the children's school attendance and vaccination records, and payable to the female head of the household, were introduced. These measures most probably had a positive impact on the votes that the governing AKP received in the East and Southeast Anatolia where poverty levels are extreme (Bugra & Candas 2011: 521).

At the local level, municipality governments controlled by the AKP deliver additional assistance to millions of people. "When this aid is added to the national social assistance [programme], the number of families benefiting is much higher than 3 million, and the number of people benefiting exceeds 13 million" (Cetingulec 2015).

The second feature is to exploit charity associations as a tool for the survival. The Erdoğan government addressed the role of religious associations in social welfare, using the discourse of Islamic philanthropy. An AKP-affiliated politician, for example, founded an NGO to manage micro-credit in the poor south-eastern region. At the municipality level, municipality governments found 'social funds' which collect contributions from local companies. Local companies are willing to pay a contribution, looking for a return "in the form of privileges accorded to these companies in their business-related interactions with the local political authorities" (Bugra & Candas 2011: 522). These activities lack transparency and have no systematic mechanism of means-testing. Their distributions are discretionarily made by their donors or members of their executive boards (Bugra & Candas 2011: 522).

These two cases suggest a hypothesis based on the relationship between the survival strategies of authoritarian leaders and income distribution instruments after introducing (quasi-) competitive elections under authoritarian rule:

**Hypothesis 2** – Pork Barrel Hypothesis: Authoritarian leaders exploit social welfare systems and target specific groups (or social strata) with generous welfare provisions to win (quasi-) competitive elections.

The introduction of multiparty elections forces authoritarian leaders to compete with their opponents and win (quasi-) competitive elections. Authoritarian leaders can also make a portion of the citizenry depend on the state's largesse, or social welfare provision in this case, for their livelihood (Gandhi & Lust-Okar 2009: 412). It is therefore rational for authoritarian leaders to



distribute social expenditure to specific groups, the vulnerable in particular, rather than to make a payment to a wide range of the population.

In summary, the political and economic structural changes since the 1970s – (1) neo-liberal economic reform, structural adjustment in particular, and (2) the introduction of multiparty election systems – have a significant impact on social welfare systems under authoritarian rule. The former change would lead to the rationalisation of social welfare systems (**Hypothesis 1**). Whereas authoritarian leaders are isolated from popular pressure to oppose drastic social reform in the absence of effective democratic instruments, obeying the proposal on drastic social welfare reform enhances the reputation of authoritarian leaders among international donors, such as the United States, the World Bank and the IMF. Furthermore, the rationalisation of social welfare systems enables authoritarian leaders to invest in projects for economic growth and industrialisation. As a result, it could be asserted that neo-liberal economic reform would encourage authoritarian leaders to replace existing inefficient programmes with new programmes, which are more efficient for poverty alleviation (such as ration of food staples, food stamps, in-kind transfers and direct cash transfers). The latter change would lead to the expansion of social welfare systems with the introduction of (quasi-) competitive elections under authoritarian rule (**Hypothesis 2**). The introduction of multiparty elections forces authoritarian leaders to compete with their opponents and win (quasi-) competitive elections. To win (quasi-) competitive elections, authoritarian leaders exploit social welfare systems and target specific groups (or social strata), the vulnerable in particular, with generous welfare provision.

### 1-3. The Theoretical Framework

Although the previous section indicated the two hypotheses, they are too simplified to understand long-term change in social welfare systems. Many historical institutionalists propose various theoretical frameworks to analyse long-term institutional change. James Mahoney (2000)

points out that the current research on long-term institutional change has three key features. The first feature is that “path-dependent analysis involves the study of causal processes that are highly sensitive to events that take place in the early stages of an overall historical sequence.” The second feature is that “in a path-dependent sequence, early historical events are contingent occurrences that cannot be explained on the basis of prior events or ‘initial conditions.’ Since these early historical events are of decisive importance for the final outcome of the sequence, this criterion rules out the possibility of predicting a final outcome on the basis of initial condition”. The third is that, “once contingent historical events take place, path-dependent sequences are marked by relatively deterministic causal patterns or what can be thought of as ‘inertia’ – i.e., once processes are set into motion and begin tracking a particular outcome, these processes tend to stay in motion and continue to track this outcome” (Mahoney 2000: 510-511). In addition, Paul Pierson also characterises these works using four dimensions:

- (1) *Multiple equilibria*. Under a set of initial conditions conducive to positive feedback, a range of outcomes is generally possible.
- (2) *Contingency*. Relatively small events, if occurring at the right moment, can have large and enduring consequences.
- (3) A critical role for *timing and sequencing*. In these path-dependent process, *when* an event occurs may be critical. Because early parts of a sequence matter much more than later parts, an event that happens “too late” may have no effect, although it might have been of great consequence if the timing had been different.
- (4) *Inertia*. Once such a process has been established, positive feedback will generally lead to a single equilibrium. This equilibrium will in turn be resistant to change [*italics in original*] (Pierson 2004: 44).

Their two types of the characterisation indicate that historical institutionalism is suitable when analysing a causal mechanism in small-N studies, like this research.

Current work on historical institutionalism criticises the existing approach in historical institutionalism for the ‘punctuated equilibrium model’, which is premised on the strict division of two mechanisms: institutional formation and the durability of institutions. Therefore, current research does not consider earlier research using the punctuated equilibrium model to be suitable for explaining institutional changes. According to their argument, the older model cannot explain

institutional change without external shocks and can manifest only drastic institutional change through external shocks. James Mahoney & Kathleen Thelen (2010) draw on a new framework to explain institutional change. Their work attempts to answer why the roles of a specific institution substantially change although the institutional arrangement is stable on the surface (Mahoney & Thelen 2010).

However, it should be noted that the existing historical institutionalist approach also has several useful concepts for explaining long-term, gradual institutional changes. Although models in the earlier works were static and might not explain institutional changes (Arthur 1989; David 1985), most works in historical institutionalism do not consider institutional characters to be unchangeable. As Kathleen Thelen (1999: 385-386) remarks, “for those who are disadvantaged by prevailing institutions, adapting may mean biding their time until conditions shift, or it may mean working within the existing framework in pursuit of goals different from — even subversive to — those of the institution’s designers”. Moreover, if actors become aware that there are few incentives to maintain institutions which were beneficial for them before, institutional change happens (Mahoney 2000: 516-526). When focusing on these characters in historical institutionalism, this thesis introduces three key concepts to analyse long-term changes to the social welfare system during Mubarak’s Egypt: (1) critical junctures, (2) path dependence and (3) reactive sequence.

#### ***A. Critical Junctures***

The first concept of ‘critical junctures’ is defined as “a period of significant change, which typically occurs in distinct ways in different countries (or other units of analysis) and which is hypothesized to produce distinct legacies” (Collier & Collier 2002: 29). Although there are many junctures which determine a pathway of institutional development, some of them are ‘critical’ because, once a choice is selected, it becomes impossible to return to the initial point. “Once a particular option is selected [at a critical juncture], it becomes progressively more difficult to return to the initial point when multiple alternatives were still available” (Mahoney 2000: 513). James Mahoney emphasises the importance of actors’ choices:

In many cases, critical junctures are moments of relative structural indeterminism when wilful actors shape outcomes in a more voluntaristic fashion than normal circumstances permit ... these choices demonstrate the power of agency by revealing how long-term development patterns can hinge on distant actor decisions of the past (Mahoney 2001b: 7).

Once an actor makes a choice (i.e., survival strategies of authoritarian leaders in this case), this decision becomes a critical juncture and builds institutional legacies that will restrict options following authoritarian leaders in the future.

This concept of ‘critical junctures’ is not new and has been referred to in various classical works (Gerschenkron 1962; Lipset & Rokkan 1967; Moore 1967). These scholars regarded institutions as enduring productions of the past political struggle, addressing the importance of timing and sequence of historical changes. Although they put an emphasis on critical junctures in their works, they tended to overlook a mechanism to reproduce and reinforce the institutions they analysed. For instance, their terms of ‘freezing’ and ‘crystallization’ seem misleading because these words suggest “that things stand still, when in fact we know intuitively that organizations such as political parties or unions with roots in the nineteenth century must adapt to myriad changes in the environment in order to survive into the twentieth century” (Thelen 1999: 391). The classical works, therefore, “obscure more than they reveal unless they are explicitly linked to complementary arguments that identify the mechanisms of reproduction at work” (Thelen 1999: 391).

Ruth Collier & David Collier (2002) therefore conceptualise ‘critical junctures’, focusing on a process to create the legacy. They divide such a process into three elements:

- (a) Mechanisms producing a legacy: The legacy often does not become explicit right after the critical juncture but is formed through several processes to crystallise the legacy;
- (b) Mechanisms reproducing the legacy: In addition to the producing mechanisms, there are on-going political and institutional effects to reinforce the legacy; and
- (c) Stability of the core attributes of the legacy (Collier & Collier 2002: 29-31).

Their work addresses how a critical juncture creates several mechanisms, some of which are self-reinforcing, to lead to path-dependent institutional changes.

It is necessary to consider details on the concept of critical junctures. Hillel David Soifer

criticises that the conceptualisation is not sufficient to use to explicitly explain causal mechanisms of long-term institutional changes. He proposes the distinction between **permissive conditions** and **productive conditions** in critical junctures. Permissive conditions can be defined as “necessary conditions that mark the loosening of constraints on agency or contingency and thus provide the temporal bounds on critical junctures” (Soifer 2012: 1572). They could be likened to “a window of opportunity in which divergence *may* occur, and that divergence *may* have long-term consequences” [italics in original] (Soifer 2012: 1575). Productive conditions “in the presence of the permissive conditions, produce the outcome or range of outcomes that are then reproduced after the permissive conditions disappear and the juncture comes to a close” (Soifer 2012: 1573). Although each type of condition is necessary, the two are jointly sufficient to lead to a specific outcome.

It should be noted that, to discuss ‘critical junctures’ for the development of social welfare systems under authoritarian rule, it is necessary to mention the relationship between political and economic structures, and social welfare systems. As discussed above, existing literature on welfare states suggests that political and economic structures determine actors’ behaviour and the design of social welfare systems. Scholars dealing with the power resource mobilisation theory assume that modern welfare states are constructed on the basis of democratic institutions. Walter Korpi (1983), for example, argues that democratic institutions enabled organised labour to influence the expansion of a social welfare system in Sweden. They assume that the relationship between a state and citizens (especially organised labour) determines the design of social welfare systems in industrialised countries (Esping-Andersen 1990; Korpi 1983). More recently, many scholars have asserted that economic systems have a significant impact on the design of social welfare systems in industrialised countries, contrasting coordinated market economies to liberal market economies (Ebbinghaus & Manow 2001; Hall & Soskice 2001; Kitschelt *et al.* 1999):

In coordinated market economies, a dense network of business organizations as well as the provision of patient capital by firms facilitates high levels of investment in firm- or industry-specific skills. The presence of these institutions of nonmarket coordination affects the social policy preferences of employers and workers in these economies and the formation of cross-class alliances in support of social policies that

protect investment in skills. ... By contrast, in liberal market economies, firms' incentives to undertake long-term investments in the skills of their workers are lower because of weak employers' associations and fluid capital markets. In this context, cross-class alliances among employers and employees are less likely to form, and business is more likely to press for the deregulation of labor markets and for reductions in social policy benefits (Mares & Carnes 2009: 101-102).

The same assumption could be found in studies on social welfare in (authoritarian) developing countries. Most scholars assume that development strategies – export-led industrialisation strategies or ISI strategies – have a significant impact on the design of social welfare systems because social welfare systems are expected to contribute to industrialisation (Wibbels & Ahlquist 2007, 2011). In countries that adopted export-led industrialisation strategies, capitalists were likely to need a skilled workforce and low labour costs in the labour market to ensure domestic industry remained internationally competitive. They preferred investing in human resources through education to redistribution through large social welfare systems. Consequently, the amount of expenditure on social welfare was restricted and social welfare systems did not drastically develop in these countries. In contrast, in countries that adopted ISI strategies, capitalists sought a large number of workers who were capable of domestic industrial production. These workers were expected to be consumers who could purchase their commodities. As social welfare systems continued to stimulate domestic consumption by generously distributing resource to workers and protecting workers from various social risks (injury and sickness, in particular), capitalists were generally tolerant of large social welfare systems. Consequently, ISI strategies are likely to shape large social welfare systems (Mares & Carnes 2009: 102). Although this approach does not consider actors' political motives, it suggests a strong connection between economic strategies (and economic structures that were established by these strategies) and social welfare systems.

Stephan Haggard & Robert Kaufman (2008) assert that a turning point for the development of social welfare systems in Latin America, East Asia and Eastern Europe was in the mid-twentieth century and that there were two key components to explain the development: (1) a critical

realignment and (2) economic development strategies (Haggard & Kaufman 2008: 44-72).<sup>9</sup> A critical realignment is defined as “a discontinuity in both the composition of the political elite and in the political and legal status of labor and peasant organizations and mass political parties” (Haggard & Kaufman 2008: 45). Repertoires of economic development strategies include ISI, export-led industrialisation and socialist industrialisation strategies. When reframing their concepts in accordance with the framework of this thesis, each component could be divided as follows:

**A permissive condition** of the critical juncture: a discontinuity (or change) in the political elite

**Productive conditions** of the critical juncture: political strategies towards labour, peasant organisations and mass political parties; and economic development strategies.

Under the permissive condition, the obstacle for the expansion of social welfare systems (such as dominant actors who are not interested in the expansion) is removed. Under the productive conditions following the permissive condition, new political leaders shape social welfare systems, which endure for a long time.

**Latin America:** The permissive condition in Latin America was the formation of a reformist challenge to the agro-export oligarchies, which had been dominant since the mid-nineteenth century. In the oligarchic regimes, political participation was limited to upper and middle classes. Challengers to the old regimes created the productive conditions. First, the new regimes attempted to co-opt organised labour, for example, by passing comprehensive labour codes (the **organisational proliferation strategy**). Second, the regimes deepened ISI strategies. They were adopted to protect domestic manufacturing through high rates of trade tariff, a multiple-exchange-rate system, and subsidies. Although domestic industries had been protected since the initial stage of ISI strategies in the mid-1930s, the strategies were deepened to promote the domestic manufacture of consumer durables, intermediates and even capital goods in Chile, Argentina, Brazil, Uruguay and Mexico between the 1960s and 70s. ISI strategies led to labour-market dualism (between formal and informal sectors) and the exclusion of the agricultural sector. These political

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<sup>9</sup> In addition to the two components, they address the importance of regime types (democracy or authoritarianism) as a factor to explain the development of social welfare systems.

and industrial strategies determined the character of the social welfare systems, which were more favourable to urban, formal-sector workers than to citizens in the urban informal sector and the agricultural sector. Social-insurance-based pension programmes, for example, covered urban formal workers whilst urban residents in the informal sector were excluded or provided with minimal welfare provision (Haggard & Kaufman 2008: 46-51, 61-65).

**East Asia:** The permissive condition was the formation of anti-communist regimes. Political leaders did not adopt the organisational proliferation strategy and repressed labour and popular movements. The regimes were allied with industrial capitalists and distributed rents to them (the **co-option strategy** – Productive Condition 1). Their economic development strategies were export-led industrialisation. The regimes prioritised economic growth over egalitarian income distribution, obtaining legitimacy through economic growth (Productive Condition 2). Although the political leaders were eager to promote foreign investments and distribute rents for export-led industrialisation projects, they lacked incentives to expand social welfare systems. Instead, they promoted active investment in human resources and education, which fitted the preferences of capital for highly-skilled workers. Investments in fundamental education and occupational training were essential in order to upgrade labour quality and accomplish further economic growth. These countries in East Asia therefore paid more attention to educational expenditure than social insurance programmes and restricted the size of social welfare systems under authoritarian rule (Haggard & Kaufman 2008: 51-56, 65-69).

**Eastern Europe:** The permissive condition was the formation of communist regimes and the political dominance of Eastern European countries by the Soviet Union. The communist regimes attempted to control all political, social and economic activities. They eliminated other political parties and independent associations and attempted to integrate these organisations into the Communist Party (the **organisational proliferation strategy** – Productive Condition 1). In addition, the regimes made a comprehensive and controlling economic plan (Productive Condition 2). In contrast to the East Asian case, the industrialisation strategies adopted by Eastern European



countries created comprehensive social welfare systems, in which the government played an overwhelmingly large role. The government was in charge not only of guaranteeing full employment but providing basic foodstuffs. As these countries lacked private markets for insurance and social services, the government planned and implemented all social welfare services (e.g., pensions and healthcare). Also, this model can be characterised by the fact that their social welfare systems covered not only urban workers but rural workers. The policy of collectivising agriculture provided a by-product that the universalist welfare institutions, such as social insurance and services, enabled the communist governments to control the rural sector (Haggard & Kaufman 2008: 56-59, 69-71).

What were the permissive and productive conditions for the development of social welfare systems in MENA countries, including Egypt? Although Haggard & Kaufman (2008) do not refer to the MENA case, it is possible to assume these conditions by comparing the three cases in their work. The permissive condition was the appearance of nationalist leaders, such as Mustafa Kemal Atatürk in Turkey, Habib Ben Ali Bourguiba in Tunisia and Gamal Abdel Nasser in Egypt. The productive conditions were (1) co-option of organised labour and peasants and (2) the ISI strategy, similar to the Latin American case. The ISI strategy put an emphasis on the role of the government in the process of industrialisation. Along with this strategy, these countries undertook populist measures to co-opt organised labour and peasant groups into their ruling coalition (the **organisational proliferation strategy**). Consequently, the social welfare systems were expanded and favourable to employees in the urban formal sector (Hinnebusch 2006; Richards & Waterbury 2008). This thesis examines what impact these critical junctures, which the Egyptian social welfare system experienced during the Nasser era, thereafter had on the development of the Egyptian social welfare system, focusing on the relationship between political and economic structures and the social welfare system.

## ***B. Path Dependence***

The second important concept is ‘path dependence’, which is also defined by several scholars

in institutionalism, historical institutionalism in particular. Margaret Levi (1997), for example, defines the concept as follows:

Path dependence does not simply mean that ‘history matters.’ This is both true and trivial. Path dependence has to mean, if it is to mean anything, that once a country or region has started down a track, the costs of reversal are very high. There will be other choice points, but the entrenchments of certain institutional arrangements obstruct an easy reversal of the initial choice. Perhaps the better is a tree, rather than path. From the same trunk, there are many different branches and smaller branches. Although it is possible to turn around or to clamber from one to the other — and essential if the chosen branch dies — the branch on which a climber begins is the one she tends to follow (Levi 1997: 28).

This concept can be understood in the mechanism of positive feedback. Once an institution creates a network of interests groups, political decisions are influenced by such networks, which are likely to strengthen this institution in order to further their interests. In such a mechanism, the creation of an institution leads to the self-reinforcing process, which makes it difficult to change from one pathway of the institutional development to another (Pierson 2004). This self-reinforcing process has a significant impact on the survival strategies of authoritarian leaders through social welfare systems under authoritarian rule.

It should be noted that the distributional effects of institutions and power asymmetry have significant impacts on mechanisms of positive feedback in politics. According to Pierson (2004), for example, actors able to control a specific institution have an incentive to expand their influence and powers by utilising such an institution. As Kathleen Thelen (1999) states, moreover, institutions are not neutral mechanisms for coordinating actors’ interests but reflect power asymmetry among actors in a political arena. This type of literature emphasises that a specific institutional arrangement continues contributing toward the empowerment of a certain group and restricting others’ political influence. “The distributional biases in particular institutions or policies ‘feed back’ so that over time, some avenues of policy become increasingly blocked, if not entirely cut off as decisions at one point in time can restrict future possibilities by sending policy off onto particular tracks” (Thelen 1999: 394).

Cases of positive feedback can be often found in studies on the welfare state in Western industrialised countries. Take Esping-Andersen (1990), for example. His ‘conservative-corporatist’ model<sup>10</sup> offers an example of positive feedback. This type of the welfare state is based on the notion of a single breadwinner. In these countries, therefore, it is pointed out that women have few incentives to enter the labour market, which is one of the reasons why ratios of female labour market participation are low in this model. Wolfgang Streeck (1992) provides another example of the positive feedback mechanism. His research on the German political economy demonstrates that an institutional arrangement in the German social welfare system (e.g., vocational training programme and centralised bargaining system) determines private firms’ strategies, which are likely to reinforce existing institutions. Business pursues strategies based on high-skill and high-value-added production, which locks in the German pathway of economic development.

This framework has been developing along with the literature on the welfare state. Theda Skocpol’s (1992) *Protecting Soldiers and Mothers* is a good example. She demonstrates that the “fragmentation of the state, as well as the organization of party competition along patronage lines, actively mediated against the development of a unified working class that could then spearhead the movement for comprehensive social policies in the United States” (Thelen 1999: 394). At the same time, she asserts that this political structure reinforced the existing social policies that the US government implemented. After the Civil War, social welfare provision for veterans and their widows created a strong interest group involved in social policies. Its lobbying encouraged the government to develop social policies for them and marginalised interests of other groups in these policies. Esping-Andersen’s (1990) typology of welfare state strengthens Skocpol’s argument on positive feedback. Although strong organised labour offers an engine for developing the generous welfare programmes in the universal model, this pathway is contrasted to the US case, which is an example of the liberal model. His explanation is compatible with what Skocpol attempts to demonstrate in her book.

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<sup>10</sup> He categorises welfare state in Western industrialised countries into three: (1) the universalist model (represented by Scandinavian countries), (2) the conservative-corporatist model and (3) the liberal model (represented by Anglo-Saxon countries).

The concept of positive feedback is currently applied to cases of social welfare development outside Western, industrialised countries. Developing countries experienced expansion of social welfare systems in response to two structural changes since the 1970s. The first significant change is economic liberalisation. The second is democratisation. Unlike the Middle Eastern case, most countries in Latin America, East Asia and Eastern Europe experienced democratic transition between the 1980s and 1990s (the ‘third wave’ of democratisation) (Huntington 1991). These changes encouraged social welfare systems in these three regions to drastically expand, which increased their social expenditure. Expansion was determined by institutional legacies from the mid-twentieth century. Economic liberalisation revealed that social welfare programmes were important to mitigate social risks and encouraged the losers of economic liberalisation to struggle for their social rights. Democratisation provided them with a chance to increase their benefits through social and political movement. At the same time, democratic transitions created opportunities for subordinate actors (the **launching organisations**) to utilise institutional structures for their own interests.

In Latin America, the main welfare programme (such as the social insurance programme) targeted the urban middle class and workers in the formal sector. Although this programme had not covered workers in the countryside, democratisation contributed to the formation of strong pressure groups, such as trade unions. These groups had an influence over the decision-making process. Moreover, “public-sector unions, particularly those with institutionalized influence over the management of social-security funds, were often able to exert important concessions in the course of pension reform. The highly centralized health and education sectors also proved resistant to change” (Haggard & Kaufman 2008: 200). In Eastern Europe, trade unions also played an important role in the expansion of social welfare systems. They functioned as representatives of workers, defended their entitlements and created a new social safety net. “Eastern European unions continued to encompass a much larger segment of the workforce than those in Latin America or East Asia. At least in some cases, they were also able to mobilize support for large-scale protests

and even general strikes in defense of entitlements” (Haggard & Kaufman 2008: 199). The resistance to social welfare reform in Latin America and Eastern Europe was caused by the feedback effect. The institutional structure that was constructed during the previous authoritarian rule provided specific actors (e.g., trade unions) with resources to resist the reforms.

In contrast to these two cases, in democratised East Asian countries the limited welfare provision under the previous authoritarian rule provided politicians with incentives to expand the social welfare systems as a way of winning elections. Trade unions did not play an important role in the expansion of social welfare systems because of the weak union movement in this region. Instead, conservative governments took the initiative in the expansion of welfare provision. The absence of leftist groups therefore had several effects on the character of the expansion.

In Korea and Taiwan, for example, politicians were attracted first and foremost to broad middle-class entitlements – pensions and particularly healthcare – and in Thailand a number of initiatives were less redistributive in design that they might have been. When government either initiated unemployment insurance or expanded it, .... They did so in conjunction with initiatives designed to increase labor-market flexibility (Haggard & Kaufman 2008: 259).

Even after the expansion, the main goal of social welfare programmes did not change, and the social welfare systems contributed mainly to economic development rather than income distribution.

In comparison with the three cases above, the MENA case was thought to be more path-dependent because democratic transitions did not occur in this region. Although most MENA countries began to implement partial economic liberalisation in the 1970s, its effects differed from those in Latin America, East Asia and Eastern Europe for three reasons. The first factor was that the economic liberalisation policy was restricted and did not overcome the dominance of the public sector in the economy (Richards & Waterbury 2008). The second was the lack of democratic transition, as discussed earlier. The third factor was that MENA countries, even non-oil producing countries, benefited from a rise in oil prices in the 1970s. A drastic increase in oil prices increased not only revenue from oil exports in oil-producing countries but also foreign aid in non-oil

producing countries (Richards & Waterbury 2008: 50-57). Economic liberalisation created a number of losers, like other cases in Latin America, East Asia and Eastern Europe. Although pressure was exerted on the governments and social expenditure increased, this expansion was not an effect of democratisation and the result of positive feedback effect under authoritarian rule. In the 1970s, MENA countries (including the non-oil producing countries) benefited from a rise in oil prices, which gave their authoritarian leaders an opportunity to exploit the existing social welfare systems. The authoritarian leaders undertook further populist measures to obtain popular support by using economic rents that were created by oil price hikes. At the time, governments expanded social welfare programmes, especially subsidies for fuel and foodstuffs. This populist tendency continued until the beginning of SAPs in the 1990s.<sup>11</sup>

### ***C. Reactive Sequences***

Although most scholars tend to explain path dependence as an outcome of positive feedback, there is another factor for path dependence: ‘reactive sequences’. James Mahoney (2001b) addresses differences between two different periods in path dependence: (1) institutional and structural reproduction and (2) reactive sequences. Whereas a period of institutional and structural reproduction is characterised by positive feedback and self-reinforcing mechanisms, a period of reactive sequences follows a period of positive feedback.

Reactive sequences are triggered by actors’ resistance to prevailing institutions or structures. Counter-reaction to the actors’ resistance may also occur.

The mechanisms driving reactive sequences differ substantially from those that characterize processes of structural and institutional reproduction. Whereas mechanisms of institutional and structural reproduction are marked by self-reinforcing and positive-feedback processes, reactive sequences are characterized by transformative and backlash processes in which there is movement toward reversing previous patterns (Mahoney 2001b: 10).

This concept is important when analysing changes in the social welfare system in the Mubarak era because his era could be characterised as one of different acts of resistance to the existing social

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<sup>11</sup> As for the Jordanian case, see Andoni & Schwedler (1996) and Ryan (1998).

welfare system.

Since the 1980s, social welfare systems in MENA countries (including Egypt) have been strongly influenced by various structural changes, as discussed in the previous section of this chapter: (1) structural adjustment and a shift of the ruling coalition, and (2) political liberalisation. These structural changes encouraged actors (authoritarian leaders, in particular) to amend existing social welfare systems. First, structural adjustment forced them to rationalise the social welfare systems (see **Hypothesis 1**). However, this tendency was limited by popular protests. The IMF and the World Bank suggested that governments in the MENA region should implement further reform to rationalise subsidy programmes and create social safety nets more favourable to the vulnerable (IMF 2014; Silva, Levin & Morgandi 2012). Nonetheless, inefficient social welfare programmes (such as energy and food subsidies) still survive. In Jordan, for example, food subsidies were *de facto* maintained by the government even during structural adjustment (Kawamura 2015).

Second, the introduction of multiparty elections stimulated them to concentrate resources on specific social groups, such as vulnerable people, in order to mobilise them in (quasi-) competitive elections (see **Hypothesis 2**). However, MENA countries do not have the fiscal discretion to mobilise specific groups for the three factors. The first factor is that international donors are sensitive to increases in fiscal deficits in aid-recipients countries. The second factor is that MENA countries prioritise national security expenditure over social expenditure (UNDP 2009). The third factor is that authoritarian leaders failed to implement social welfare reform. Therefore, what authoritarian leaders in this region can do is to maintain existing populist social welfare systems within tighter fiscal restrictions. This tendency is obvious from the following IMF report:

MENA countries spend on average much more on subsidies than other regions, and have increasing difficulty financing them. Total pretax energy subsidies in 2011 cost \$237 billion – equivalent to 48 percent of world subsidies, 8.6 percent of regional GDP, or 22 percent of government revenue. They amounted to \$204 billion (8.4 percent of GDP) in oil exporters and \$33 billion in oil importers (6.3 percent of GDP). For 2012, preliminary IMF estimates show that pretax subsidies for diesel and gasoline only, which represent about half of total energy subsidies in MENA, were 3.8 percent of regional GDP. Food subsidies are also common in MENA countries, though less costly.

In 2011, they amounted to 0.7 percent of GDP for the region, though they were distributed unevenly among countries (Sdralevich *et al.* 2014: ix).

To analyse such path-dependent change in the Egyptian social welfare system, this thesis focuses on two cases: (1) the food subsidy programme (**Chapter 4**) and (2) the public employment programme (**Chapter 5**). These two cases are suitable to test the two hypotheses for two reasons. First, these two social welfare programmes contributed to the import-substitution industrialisation strategy in the Nasser era. The food subsidy programme functioned as a mechanism for transferring wealth in the agriculture sector to the industrial sector by providing inexpensive foodstuffs to urban workers. The public employment programme aimed to supply human resources to the expanding public sector by guaranteeing public sector jobs to graduates of higher education institutes (the job guarantee scheme). Second, these two programmes were considered to be obstacles to further economic growth in the Mubarak era. In the wave of economic liberalisation, international donors attributed the fiscal deficit to these two programmes. Additionally, they believed these programmes distorted the economic system. The Mubarak government therefore found it difficult to justify the value of these programmes, compared to conventional social welfare programmes (such as social insurance and social assistance). These programmes were thought to be vulnerable to (both political and economic) structural change. Pressure was exerted on the Mubarak government to reform (and eliminate) these programmes. These programmes were therefore ideal illustrations of how the social welfare system was altered by structural, political and economic change and yet resisted such structural change.

This thesis reveals how these social welfare programmes ‘path-dependently’ changed. It could be asserted that these programmes (the food subsidy programme and the public employment programme) survived through the Mubarak era. Although the government might cut expenditure on these programmes during the Mubarak era, their key institutional features established in the Nasser era (especially their formal features) did not change. To understand the institutional change, therefore, this research investigates institutional continuity and change from the Nasser era until the



Mubarak era (see **Chapter 4** and **Chapter 5**).

#### 1-4. Research Methods

To reveal the causal mechanisms of change in the Egyptian social welfare system, it is necessary to demonstrate how authoritarian leaders, President Hosni Mubarak in particular, dealt with the social welfare system in the survival strategies. Although the best research method is to interview those responsible for the Egyptian social welfare policy in order to explore their intentions and test hypotheses, this thesis does not interview actors related to the social welfare system (such as authoritarian leaders and the ruling elite). First, this thesis includes a politically sensitive topic – assessing public policies under the previous regime (the Mubarak regime). Egypt has experienced two regime changes since the ‘Arab Spring’ in 2010 and the subsequent overthrow of the Morsi government by the military in 2013. It is difficult to find suitable interviewees during such a politically sensitive periods and personal safety is an issue. Second, key civil servants have already retired or moved to other departments. Therefore, there are not many (if any) suitable bureaucrats to interview. Even though it is possible to interview current bureaucrats responsible for the case social welfare programmes, it is difficult to obtain useful information other than mere anecdotes or their individual opinions. For these reasons, this thesis does not use interviews as the main source to test the hypotheses.

Instead, this thesis draws largely on secondary sources. There are various secondary sources on this topic, as many scholars have already published articles and books on the political economy of Nasserism, structural adjustment, political structures of modern Egyptian authoritarianism and specific welfare cases (such as food subsidies and reforms of the public sector). This thesis attempts to use their findings to test the two hypotheses, adopting process tracing method to reveal the causal mechanism of change in the social welfare system. Although it is impossible to reveal strategies and intentions of actors, information in secondary sources enables the author to infer their intentions and strategies. However, it should be noted that their works are biased as they

analyse cases from their perspective. To correct the bias and inter actors' intentions more carefully, this thesis also uses several primary sources: (1) statistical data, (2) newspaper articles, (3) government publications and (4) interviews (only for cross-checking).

(1) **Statistical data**: This study uses several types of statistical data, which track quantitative change. As many scholars have focused on the political economy of Egyptian authoritarianism, especially Nasserism, there is a plenty of statistical data on changing in political and economic structures and the social welfare system in academic literature. Additionally, international institutions, such as the World Bank and think tanks have published statistical data. Data on food subsidies, for example, is available in reports published by the International Food Policy Research Institute (IFPRI), the Al-Ahram Center for Political and Strategic Studies and the World Bank. Government statistics issued by the Central Agency for Public Mobilization and Statistics (CAPMAS) cover a wide range of areas and provide useful data for this study. The CAPMAS collects data specific to price subsidies, including food subsidies, and publishes *A Study of Subsidised Baladi Bread* (CAPMAS 2014). Data offered by these institutions includes expenditure on food subsidies and the efficiency of the programme as a poverty alleviation programme. Data on public sector employment can be collected from several think tanks in Egypt, such as the Egyptian Center for Economic Studies (ECES) and the Economic Research Forum (ERF), because these think tanks analyse the impact of public sector employment on the economy, the budget and human development. Their data reveals wage levels in the public sector and levels of wage satisfaction for public sector workers. The CAPMAS regularly publishes the *Annual Bulletin of Civil Servants in the Government, Public and Public Business Sector* (CAPMAS 1986-2012), which indicates change in the number of employees in the public sector. The Central Bank of Egypt (CBE) constantly publishes the *Economic Review* quarterly and the *Annual Report* annually, which are used to reveal the amount of expenditure on public sector wages. This data indicates what impact the survival strategies of authoritarian leaders had on specific programmes and beneficiaries (for example, public sector workers in the case of the public employment programme).

It should be noted that the credibility of statistical data is limited. First, most of the publications referred to in this study do not cover the whole analytical period that this study covers. This study needs to combine several sources of statistical data published by different authors, which may fail to indicate continuous changes in expenditure on the case programmes (such as food subsidies and public employment). This study, for example, refers to expenditure data on government employees' wages published by the CBE (CBE 1983-2002/03, 2004/05-2012/13). In some cases, the statistical data books in different publication years report the different amounts of expenditure in a specific fiscal year. It might be because the government changed the standard of collecting the data or because the government intentionally changed the data for some reasons. Consequently, it is not clear how much the government actually spent on the case programmes (i.e., the public employment programme in particular). As each set of data may use the original standard to collect and organise the data, it is necessary to take these continuous changes with a pinch of salt. Second, the credibility of government statistics also needs to be mentioned. Generally speaking, governments have an incentive to distort the statistical data for several reasons. For example, economic and social reform is supervised by international donors during structural adjustment. Consequently, the governments might report distorted statistical data to these donors in order to enhance their reputation by showing that the governments sincerely implement the economic and social reform that the international donors suggest. This situation was applicable to Egypt (see **Hypothesis 1**). As most of the statistical data published by international organisations (such as the World Bank and the IMF) and research institutes represented by the IFPRI were based on statistical data offered by the government, it is necessary to recognise that this data might be also biased in the same way as statistical data published by the government itself.

(2) **Newspaper articles**: Newspapers often report public statements by government members, such as the president and ministers in Egypt. These statements are useful for understanding the attitudes of the ruling elites towards the social welfare system. *The Egyptian Gazette*, which is the government official newspaper, has covered government statements since the 1952 Revolution. In

addition to *The Egyptian Gazette*, this thesis also draws on several newspapers written in English – *Al-Ahram Weekly* and *Ahram Online*. However, the authoritarian nature of the Egyptian regime may have led to distortion and restrictions in their articles and reduced their credibility. Articles published in the period of interest might be distorted as a result of the editors' self-censorship or government censorship. Moreover, whereas Arabic newspapers mainly target domestic readers, English-language newspapers in the Arab world are often tailored to 'sell' an image to external communities and contain different content to Arabic-language newspapers. Thus, this thesis uses articles in international newspapers, such as the *New York Times*, the *Financial Times*, *The Times*, *The Economist* and *Reuters* as a double-checking , which could correct articles' distortions stemming from authoritarian political bias, to some extent.

However, it should be also noted that there is always bias in domestic or international newspapers. The first is a bias caused by the authoritarian character of the Egyptian regime. This thesis uses both domestic and international newspapers to double check information. International newspapers are relatively free from self-censorship or censorship by the Egyptian government, compared to domestic newspapers, but their articles are also written based on news sources obtained from domestic news sources and government figures. As the government tends to restrict information that is unfavourable to it, readers are only given information that is favourable to the Egyptian government or trivial. In other words, information that is unfavourable to the Egyptian government does not come to the surface.

(3) **Government publications:** Government publications shed light on how the government at the time thought about the social welfare system and programmes in the case studies. As Egypt has a legacy of socialism, the Egyptian government constantly publicised master plans for economic development from the Ministry of Planning (MoP) – the *Five Year Plans* (see MoP (1977) and MoP (1982), for example). In these plans, the government mentioned the relationship between economic development and the social welfare system and therefore the publications help us understand how it would deal with social welfare programmes. Although the contents of the statements were

superficial, the public statements addressed the importance of social welfare programmes in economic development. As discussed above, it is necessary to consider the authoritarian characters of the Egyptian regime and to modestly assess their statements when testing the hypotheses. Nevertheless, government publications are important tools of analysis.

(4) **Interviews (for cross-checking)**: The author interviewed (1) scholars, (2) journalists and (3) those working for international institutions during fieldwork conducted in Cairo, Egypt in May 2014. All of the interviews were conducted in their offices and in English. The first category is scholars. The author selected interviewees who specialise in Egyptian social welfare policies and publish articles in English-language academic journals or reports published by Egypt-based think tanks (such as the ECES and the ERF). They work at local universities (such as the American University in Cairo, the German University in Cairo and Cairo University) or think-tanks (such as the ECES, the ERF, the Population Council, and the Al-Ahram Center for Political & Strategic Studies). Some of them were introduced by Prof. Bahgat Korany (Professor at the American University in Cairo) and others were directly contacted by the author. The second category is journalists working for *Al-Ahram*, who were introduced by Prof. Bahgat Korany. Some of them provided the author with several reports written in Arabic, which are referred to in this thesis. The third category is the local staff working for UNICEF and the World Bank. Dr. Daniela Pioppi (Senior Fellow at the Istituto Affari Internazionali, Italy) introduced them to the author during fieldwork. Some of them gave the author publications, statistical data and anecdotes related to the topic of this thesis.

The author could not interview government officials and politicians who were responsible for social welfare policy during the Mubarak era. Most of them were already retired or moved to other departments and it is impossible to find them to conduct interviews. Although the author interviewed journalists and experts on social welfare policy in Egypt instead, most of the information provided by the interviewees can be substituted to the published information because they were not necessarily involved in a policy-making process of social welfare programmes at the

time. This thesis therefore uses the interviews only for cross-checking. Although they are not directly mentioned in this thesis, the statistical data and publications they offered are cited in this thesis. In addition, as it is difficult to assess their credibility, their anecdotes are not cited in this thesis. These interviews did, nevertheless, enable the author to improve the theoretical arguments in the thesis by reflecting on interviewees' comments and arguments.

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In the following chapters, this thesis traces a causal mechanism of how the Egyptian social welfare system had changed since the interwar period until the Mubarak era. **Chapter 2** explains the development of the social welfare system since the inter-war period, focusing on its relationship with political and economic structures. This chapter is divided into two parts. The former part focuses on a critical juncture for the development of the social welfare system in the Nasser era. Permissive and productive conditions of the critical juncture were as follows:

**A permissive condition** of the critical juncture: the 1952 Revolution (by which political actors who had been dominant in the previous era were excluded from the political arena and obstacles for the expansion of the social welfare system were eliminated)

**Productive conditions** of the critical juncture: the nationalisation of British and French companies during the Suez War and following Arab socialist policies (which encouraged the Nasser government to expand the social welfare system for ideological justification through generous income distribution).

The latter part of this chapter explains the populist expansion of the social welfare system during the Sadat era, focusing on the positive feedback effect and structural reproduction. An income gap created by the economic open-door policy (*infitah*) forced encouraged the Sadat government to search for another source of the legitimacy. An increase in external resources (such as the Suez Canal fees and oil revenues) enabled the government to expand populist welfare provision to ease popular discontent with the *infitah*. The Sadat government exploited the ideology of 'socialism' to legitimise the expansion, which intensified the populist features of the social welfare system and generated positive feedback. As a result, the populist social welfare system was reproduced and

strengthened during the Sadat rule. **Chapter 3** focuses on path-dependent change in the social welfare system during the Mubarak era. As the economic and political structures that had sustained the populist social welfare system changed, the Mubarak era was categorised as a period of ‘reactive sequence’. This chapter analyses how the social welfare system was now driven by its own dynamics regardless of political and economic structural change. Social deprivation caused by political and economic structural change obliged the Mubarak government to maintain the existing populist social welfare system. While the fiscal deficit restricted the ability of the government to further expand the system, the discourse of the ‘social contract’ which had been strengthened by the positive feedback in the Sadat era made it difficult for the government to implement drastic social reforms. The Mubarak government continued to spend heavily on the populist social welfare system, neglecting financial misallocation in the system. To understand the detailed causal mechanism of change in the social welfare system, the following two chapters focuses on two specific social welfare programmes – the food subsidy programme (**Chapter 4**) and the public employment programme (**Chapter 5**).

## Chapter 2

### The Development of the Social Welfare System in Modern Egypt

This chapter discusses the development of the social welfare system since the inter-war period. It demonstrates that the 1952 Revolution was a critical juncture for the development of the social welfare system by comparing the system between the pre-revolution and the Nasser era. To explain this historical development, first, it explains how social welfare programmes were established and developed in the era of the British Protectorate. At the time, the development of the social welfare system was restricted by the political economic and economic structures: (1) a triangular power struggle between the British authority, the King & the landlords and (2) an initial stage of industrialisation. Under such conditions, political leaders had no incentive to expand the system.

Second, the chapter focuses on the drastic expansion of the social welfare system in the Nasser era. It considers two sets of conditions for the critical juncture: permissive and productive conditions. The 1952 Revolution – the permissive condition – removed obstacles blocking the expansion of the social welfare system by excluding the British Authority and the Palace from the political arena and eliminating the political power of the landlord class through the agrarian reform. Following the revolution, Egypt experienced the Suez Crisis – one of the productive conditions. Accordingly, socialist ideas were consolidated among the ruling elite after nationalisation. As a result, the social welfare system consisted of two layers: (1) industrial programmes and (2) residualist programmes. The industrial programmes were pro-labour and connected to Nasser's industrialisation project. In contrast, the residualist programmes were important for strengthening the legitimacy of the regime, although they did not directly contribute to his industrialisation project. Although social welfare programmes could be divided into two categories, they had generally populist features and aimed to achieve distributive justice. This feature led to path-dependent change in the social welfare system thereafter.



Third, the chapter explains the populist expansion of the social welfare system in the Sadat era. The economic open-door policy (*infatih*) created an income gap. Whereas the ‘haves’ obtained more wealth, the ‘have-nots’ suffered from inflation. Unlike the Nasser government, which was sustained by his popularity, the Sadat government needed to ease the complaints of the *infatih* losers. Moreover, the introduction of multiparty elections benefited the business elites who increased their wealth through the *infatih*. At the time, an increase in external resources (such as the Suez Canal fees and oil revenues) encouraged the government to ease the complaints through generous welfare provision. To resolve the deficit of distributional justice, the Sadat government reinforced the populist characteristics of the social welfare system. Consequently, social insurance was expanded to cover the more vulnerable, such as casual workers and the self-employed. At the same time, a new non-contributory pension programme was introduced (the Sadat Pension). As a consequence, the boundary between industrial and residualist programmes was blurred. Simultaneously, the populist expansion of the social welfare system changed the features of existing social welfare programmes, such as the food subsidy programme (**Chapter 4**) and the public employment programme (**Chapter 5**). Such populist expansion was legitimised by a form of ‘socialism’ that was totally different from what Nasser had manifested – Arab socialism. The Sadat government exploited the concept of ‘socialism’ to legitimise the expansion. This concept was developed after the food riots in 1977, which indicates that, as discussed in **Chapter 1**, mass movements were reactive to decisions of authoritarian leaders, unlike democratic countries where they played an important role in the development of social welfare systems. Although his ‘socialism’ was a mere manifesto that the government would deliver social welfare benefits by expanding the social welfare system, it reinforced the populist social contract discourse and restricted the other options that the Mubarak government could pursue (as will be explained in **Chapter 3**).

## 2-1. The Social Welfare System in the Era of the British Protectorate

The quality of social welfare programmes before the 1956 Revolution was poor. These poor social welfare programmes can be explained by examining the political and economic structures in the era of the British Protectorate. Although the Khedivate of Egypt had been an autonomous province of the Ottoman Empire, the First World War changed its status. As the Ottoman Empire entered the war on the side of Germany and Austria, Britain occupied Egypt and declared the establishment of the British Protectorate over Egypt to maintain the sea lane to India. The British Authority deposed the ruling khedive and his successor declared himself the Sultan of Egypt. At the same time, the British Authority abolished the Egyptian Ministry of Foreign Affairs, suspended the constitution and suppressed anti-British movement (Quraishi 1967: 32-33).

### *A. The Political Economy of the British Protectorate*

In the era of the British Protectorate, the economic structure could be characterised as the early stage of industrialisation. At the time, Egypt was at an ISI's initial stage. In theory, when this stage finishes, simple manufacturing imports are replaced by the domestic products in an industrialising country. To shelter such industries as textiles, clothing, household utensils, and food products, from foreign manufacturers, the government introduces protective measures, such as high tariffs. As a result of such protective policies, the consumer-goods industries rapidly developed in Egypt:

In 1932 Egypt imported 22,500 tons of cotton goods, eighteen years later the quantity had fallen to 5,000 tons. Over roughly the same time-span output of cotton yarn rose from 3,000 to 50,000 tons and production of fabrics from 93 million metres in 1938 to 225 million metres by 1950. ... By 1939 Egyptian manufacturers already met almost local demand for sugar, alcohol, cigarettes, milled cereals, glass, shoes, cement, soap, and furniture (O'Brien 1966: 223-224).

At the time, the role of the state in economic development was restricted to regulation, maintenance of irrigation and limited support to business. The private sector played an important role in industry, agriculture, finance and service (Harik 1997: 17-18).

In the 1920s industrialisation prompted the growth of a labour movement. In February 1921,

the first National Centre of Trade Unions was established. This organisation was strongly connected with the Socialist Party, which adopted communism thereafter, and had approximately 3,000 members. These members were workers in big companies, such as Egyptian Oil Industries, the National Spinning Company, and Abu-Shanab Oil factory. This communist-controlled organisation was utilised as a tool for advertising anti-capitalist propaganda. For communists, workers' complaints were merely a resource to use to attack industrialists. The communists incited strikes and occupation of factories, such as the factory occupation at the National Spinning Company and the Egyptian Oil Industries on 22 February 1924. These incidents resulted in the arrests of the ring-leaders (Deeb 1979a: 189). Although the number of urban workers was relatively small in the inter-war period, their power was stronger:

The Industrial Census of 1927 gives 215,000 as the number of those employed in industry, while in 1937, the figure was 273,000, giving an increase of 58,000 or 27%. The working class was geographically concentrated in Cairo and Alexandria: 49% in 1927 and 47% in 1937 of the total number of workers were employed in these two main cities. Thus the concentration in those cities of the workers could have made the class potentially more powerful than it appeared to be in sheer numerical strength [underline in original] (Deeb 1979b: 12).

The political structure at the time was characterised by a triangular power struggle between the Palace, the British Authority and the Wafd Party. The Wafd Party was established along with a rise of Egyptian nationalism after the First World War. It aimed to counterbalance the British Authority and the Palace and further the struggle for independence from British rule. Although the party was based on rural middle class and high-status urban groups, such as “the professionals (lawyers and doctors in particular), non-bazaar business men and financiers, industrialists, and the intellectuals (professors, students, authors, newspaper editors)” (Binder 1966: 224-225), it successfully mobilised a broad range of social classes and played an important role in the nationalist movement against the British rule in 1919. Eventually, their efforts led to the formal independence of the country from British rule in 1922 and the promulgation of the 1923 Constitution. However, the Wafd Party was too weak to truly challenge the British rule. Indeed, the Wafdists needed the

support of the British Authority to challenge the Palace and to return to power in 1942. Moreover, the party was not a unified political party, as it was divided into several factions heavily dependent on personal leadership (Ayubi 1995: 106-107).

The political actors, political parties in particular, were likely to carry favour with the labour movement. The Wafdists were most successful in organising their labour movement and emphasised the communist threat, recognising the importance of industrial peace between employees and employers. The Wafdist trade unions established their national centre, the General Union of the Workers of the Nile Valley in 1924. The president, ‘Abd al-Rahman Fahmi, thought of the General Union as an intermediary between employees and employers (Deeb 1979a: 191). The Great Depression activated the labour movement in the early 1930s. The impact of the Great Depression on the labour market in Egypt was significant. The economic crisis encouraged employers to cut wages and to lay off workers. After the economic crisis, wages were reduced by more than 40% in comparison with wages in 1923 and employers increased the use of child labour in order to cut labour costs. To alleviate such social problems, the General Union of Labour Syndicate of Egypt sought to bring in new progressive labour legislation, such as social insurance, limiting maximum working hours, and the equity of Egyptian and foreign workers in privileges and wages (Deeb 1979b: 233-237).

The labour movement was however restricted for three reasons. First, although the Wafdists were progressive in comparison to supporters of the Palace, most Wafdists regarded trade unions as a threat to political security and insisted that trade unions remain illegal. Wafdist Prime Minister Ismail Sidqi (1930-33) was apprehensive that, although the Wafdists cooperated with the General Union of Labour Syndicates, the General Union would increase its influence in the Wafd Party. He was also an industrialist and became vice-president of the Federation of Industries in 1929 (Deeb 1979a: 198). Second, progressive social policies were opposed by institutions representing industrialists’ interests, even though various Wafdist governments after the Sidqi administration recognised the importance of winning labour movement around to their side and attempted to

implement progressive policies again:

The Wafdist Cabinet tried to pass a law organizing trade unions but was faced with stiff opposition from the Advisory Labour Council and the Labour Department headed by R. M. Graves. The Advisory Labour Council had a total membership of thirty-six but of which two members only represented the workers. The major objections to the proposal came from the representative of the Federation of Industries, Henri Naus, who was against the organization of trade unions on the basis of establishment or factory, for he preferred them to be organized on the basis of crafts. He was also opposed to the establishment of branches of trade unions because this would have been tantamount to the formation of a federation of trade unions. These ideas incurred strong opposition from the Wafdist trade unions which accused the Advisory Labour Council [of] being unrepresentative and of hampering the enactment of legislation (Deeb 1979a: 200).

Third, progressive Wafdists were not actively involved with this issue. As the Palace often harassed Wafdists, the Wafd Party prioritised issues of national unity over complex social problems and did not represent the interests of peasants in order to maintain its organisational cohesion (Binder 1966: 224). Thus, workers' interests were not fully represented by political parties under the monarchical rule, despite the active labour movements.

### ***B. The Limited Social Welfare System in the Era of the British Protectorate***

These political and economic structures constrained the development of the social welfare system in this era. Although some modern social policies had been introduced in the nineteenth century, the beneficiaries were restricted to small social groups, including bureaucrats. A pension programme was introduced in 1854, but it covered only bureaucrats, such as civil servants and military personnel (El-Meehy 2009: 76). Although active unionists proposed several progressive proposals, the proposals were rejected by the landlord and industrialist class, and the Palace. As the government began to recognise the importance of comprehensive social policies, it formed a commission on this topic, chaired by 'Abd al-Rahman Rida. The Rida Commission put forward several far-reaching proposals, referring to progressive welfare states in Europe. It argued that the government should make "the employer responsible for providing housing, food, schooling and health care, [limit] the working day to nine hours, and [prohibit] the employment of children under

twelve” (Tignor 1982: 26). Despite its proposals, the Egyptian Federation of Industries argued “that industrial conditions in Egypt were different from those in Europe, that Egypt was at an early stage of industrial growth and was seeking to attract foreign and domestic capital through the cheapness and docility of its labour force, and that the Egyptian worker was different from his European counterpart, having more limited needs and a more restricted social horizon” (Tignor 1982: 26). As a result of such pressures, new labour laws enacted in the 1930s lacked rules on social insurance for sickness, old-age, and unemployment (Tignor 1982: 26-27).

Social legislation was also superficial during this period although the Wafdist government enacted some minor social laws. In 1932 the government invited the International Labour Office to send a mission, which was expected to provide policy recommendations on social reforms. It accepted the government’s claim that “Egypt was too underdeveloped to consider anything beyond minimal protective legislation for women and children and accident compensation” (Solidarity Center 2010: 7). As a consequence, the government enacted restricted social laws on the protections of minors and women in 1932 and on workers’ compensation in 1936 (Solidarity Center 2010: 7-8). Although the workers’ compensation scheme covered not only industrial workers but also agricultural workers operating machinery, the provision was small.<sup>1</sup> In 1942, furthermore, a law to recognise trade unions was passed for the first time. This was a strategy used by the government to compete with the Palace for workers’ political support (Abdel-Fadil 1980: 114).

The end of the Second World War saw citizens paying more attention to social problems in the country. In 1950 the government introduced a social assistance programme. This programme consisted of two programmes: ‘pensions’ and ‘social aid’. One distinction between the two “was that pensions were given for an indefinite period of time, while aids could be given for only twelve months” (Garrison 1976: 181). Another distinction was “the concept of right; a pensioner was entitled to the pension whereas applicants for social aids had no right to the money but were granted assistance only at the discretion of the Ministry and within the limits of money

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<sup>1</sup> The 1936 Law was complemented by the Compulsory Insurance Law and the Law for Work Hazard Compensation in 1942 (El-Meehy 2009: 77-78).

appropriated for this purpose” (Garrison 1978: 282).<sup>2</sup> The quality of the programme however remained poor. The government expended only 6 million Egyptian pounds (£E) per annum, or 0.5% of the national income, on this programme (El-Meehy 2009: 81). Some of the ruling elites considered this programme to be a waste of money and argued that it would be more appropriate to subsidise industrialisation instead.

The government admitted that the benefit levels were very low, below the real needs of human life, but insisted that benefits must be below the minimum wage. The explanation attached to the law offers a further justification for the low benefits; It is also to be remembered that beneficiaries under this scheme have hitherto been living somehow and that they are not entirely without any resources of any kind—in other words, they are not absolutely destitute. Thus, although an applicant had to prove destitution before receiving assistance and although most income was deducted from pensions, the Ministry analyst stated that other resources would (of necessity?) be added to the income of the pensioners. Finally, it appeared that the poor could do magic with their small grants. One official of the Ministry of Social Affairs responded to criticism of low benefit levels with a proverb: ‘Cake in the hands of the poor is a wonder,’ i.e., even though the benefits are low the poor can do much with what little they get (Garrison 1978: 282-283).

The opposition to this scheme led to further expenditure cuts and reduced provision. The government still asserted that social assistance would be a right, but an amended law stated that the right would be restricted within the limits of the money which was distributed to this scheme (Garrison 1978: 284).

The low quality was related to an administrative process determining who was eligible for the pensions. Local committees, which were entitled to approve applications for assistance, consisted of the mayor (in rural areas), all the local notables (*shaykh al-balad*), and the tax collector.

The influence of the local landlords on these committees was undeniable. The law thus gave additional power to those who were already powerful, who constituted the authority structure of the village, thereby reinforcing the semi-‘feudal’ paternalistic relationships of the village. Ahmad Husayn [architect of the bill] even wrote that the law should help each citizen feel ‘that society is his helpful father’ and that when this happens ‘each person will carry out his duty honestly and effectively’ (Garrison 1978:

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<sup>2</sup> “This time period could be extended by the Department for up to two years, or for those also eligible for pensions or suffering from tuberculosis, leprosy, or mental disease, for up to four year” (Garrison 1976: 181).

## 2-2. State-Led Industrialisation and the Expansion of the Social Welfare System in the Nasser Era

Whilst the social welfare system had been restricted in the era of the British Protectorate, the 1952 Revolution, which was led by the Free Officers, was a turning point for the development of the social welfare system. As discussed in **Chapter 1**, a critical juncture becomes truly ‘critical’ by working both permissive conditions and productive conditions. Permissive conditions are necessary conditions which loosen constraints on agency or contingency. They could be likened to “a window of opportunity in which divergence may occur, and that divergence may have long-term consequences” (Soifer 2012: 1575). Productive conditions follow permissive conditions and create outcomes that are reproduced even after the permissive conditions disappear (Soifer 2012: 1572-1573). In this context, the 1952 Revolution was a permissive condition for two reasons. First, new political leadership – the Free Officers excluded the British Authority from the political arena and ended the British Protectorate. Second, they implemented agrarian reform, eliminating the political power of the landlord class, which had been a powerful supporter of the Wafd Party. At the time, the government did not adopt the etatist economic system and attempted industrialisation dependent on the private sector. These political and economic features had a significant impact on the design of the new social welfare system. After the 1952 Revolution, the government recognised the importance of social welfare programmes as tools for industrialisation. It paid more attention to economic growth than generous income redistribution. The size of the social welfare system was therefore restricted. The nationalisation of the Suez Canal was a productive condition. As the government needed to justify the Canal’s nationalisation, it actively adopted the etatist economic system. In 1962 the government declared the introduction of Arab socialism. The nationalisation of the Suez Canal and ensuing Arab socialist policies (the productive conditions) encouraged the government to treat the social welfare system as an ideologically justified mechanism for Arab



socialism.

Consequently, the social welfare system in the Nasser era had ‘dualist’ features, consisting of two programmes: industrial programmes and residualist programmes. The industrial programmes were pro-labour and designed to contribute to Nasser’s industrialisation project, represented by (1) the social insurance programme, (2) the food subsidy programme (see also **Chapter 4**) and (3) the public employment programme (see also **Chapter 5**). Although these programmes benefited urban workers’ organised labour, they had few impacts on the rest of the population. The corporatist connection with organised labour provided organised labour with a channel to influence public policies, including social welfare policy, especially after the consolidation of socialist ideas. The government needed to implement programmes (such as the social insurance programme) along with the idea of Arab socialism – fair income distribution to urban workers. At the same time, these industrial programmes were linked with industrialisation projects. The social insurance programme, for example, distributed its profits to investment in government’s industrialisation projects. In contrast to them, the residualist programmes were not necessarily connected with industrialisation projects. The development of the residualist programme was mainly motivated by Arab socialism. To obtain popular support, especially from the vulnerable, the government expended populist programmes that benefited them. It should be noted that, although the introduction of Arab socialism fuelled the residualist programmes, the level of the expansion was restricted because it was motivated by an ideology rather than practical reasons. Despite the dualist characteristics of the social welfare system, social welfare programmes had entirely populist features, aiming at distributive justice. This feature led to path-dependent change in the social welfare system thereafter.

The structure of this section is as follows: (1) explaining political and economic features in the Nasser era, focusing on the permissive condition (the 1952 Revolution) and the productive conditions (the Suez Crisis and following Arab socialist policies); and (2) focusing on the dualist social welfare system and analysing the development of the industrial, core social welfare

programme (i.e., the social insurance programme), the residualist programmes (i.e., universal healthcare and the social assistance programme), and an ambiguous case – the housing programme.

## 2-2-1. The 1952 Revolution and the State-Led Industrialisation: A Critical Juncture for the Development of the Social Welfare System

### *A. The Permissive Condition: The 1952 Revolution*

In 1952 Gamal Abdul Nasser organised the Free Officers, who consisted of anti-regime officers in the Egyptian military, and staged a coup d'état. This conspiracy successfully overthrew the old regime with the support of the military, which could be the launching organisation for the new regime according to the definition discussed in **Chapter 1**. At the time of the coup (the 1952 Revolution), the direction of the country's development was not determined because the Free Officers came from various ideological backgrounds, ranging from the right (such as Islamism) to the left (such as Communism). Such political circumstances were reflected by the first constitution in 1953.<sup>3</sup> "In order to maintain overall unity between the Free Officers during their first years in power, the 1953 provisional constitution empowered the RCC [Revolutionary Command Council] with the responsibility of formulating national policy" (Kassem 2004: 17).

Among the Free Officers there was a consensus that the political actors who had been dominant in the pre-revolutionary era should be removed from the political arena. Although the Palace immediately lost its political influence, the King maintained his position until the declaration of the republic in 1953. The British Authority had already reduced its political influence after the Second World War. Although British troops withdrew to the Suez Canal zone in 1947, they still controlled the Suez Canal, which stimulated anti-British nationalist movements. In response to the rise of nationalism, the new government began to negotiate with the United Kingdom to

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<sup>3</sup> This constitution was amended four times, in 1956, 1958, 1962, and 1964, during Nasser's presidency. Each constitution reflected the political situation. Whereas the 1953 provisional constitution aimed at collective rule by members of the Free Officer, four amended constitutions were justified Nasser's individual rule (Kassem 2004).

evacuate British troops from the Suez Canal zone in April 1953. Britain and Egypt reached an agreement in October 1954. The agreement concluded that British troops should withdraw from the Egyptian territory within twenty months and declared the supersession of the 1936 Anglo-Egyptian Treaty, which had provided British troops with various privileges and exemptions. Although the agreement stipulated that Egypt should maintain the Canal Base and offer it to British troops in the case of a future war, the influence of the British Authority on domestic politics drastically decreased (Vatikiotis 1991: 388-390). The landlord class also lost its political and economic influence as a result of agrarian reforms. The Agrarian Land Reform Law in 1952 restricted the amount of land owned by one person to 200 feddans, although there were several exceptions. This measure aimed to reduce the political and economic influence of the landlord class and Greek moneylenders, who played the major role in providing rural credit (Sadowski 1991: 59).

A dominant player in the pre-revolutionary era, the Wafd Party was also dissolved by the Free Officers. They had no intention of returning to the old, pre-revolutionary style of party politics. Instead, they founded a new political front, the Liberation Rally in January 1953. It aimed to block politicians in the pre-revolutionary era from their effective participation in decision making.

There has never been any intention of granting an effective voice to the members of the mass party. The purpose of the mass party has been exploitative, since [it was] means of mobilizing sentiment for the regime and ... means of rendering the masses unavailable to alternative leaders (Binder 1966: 227).

At the same time, the Liberation Rally successfully mobilised students in demonstrations in the favour of the new revolutionary government (Blaydes 2011: 30). Consequently, the previously-dominant political actors in the pre-revolutionary era were all excluded from the political arena, which meant that obstacles to the development of the social welfare system were removed.

Instead of political elites in existing political parties, the new government considered organised labour to be a potential supporter of the new regime. The Liberation Rally created the Labour Bureau in its organisation, which was expected to function as a channel to trade unionists.

Its Labor Bureau, which was charged with building ties with the labor movement. ...

Over time the Labor Bureau supplanted the Labor Department in the MSA [Ministry of Social Affairs] as the agency for dealing with workplace and union issues, and unionists were expected to always show their loyalty to the regime by frequenting the Liberation Rally office (Posusney 1997: 52).

This relationship was reinforced by a power struggle among the Free Officers, especially between General Mohammad Naguib and Colonel Gamal Abdul Nasser. To compete with General Naguib, Colonel Nasser mobilised trade unions. In March 1954, he mobilised a trade union – the Cairo Transport Workers' Union, which subsequently played an important role in his political struggle with Naguib. To support Nasser's 'continuation of the revolution', workers in the transportation sector embarked on a strike in Cairo. This strike paralysed the city for two days. It did not merely help reinforce Nasser's rule but had an important consequence for the relationship between the government and organised labour (Kassem 2004: 91). "By November 1954, Naguib had lost his political influence to Nasser. Under the pretext that the president had been collaborating with the Muslim Brotherhood, Naguib was tried and placed under house arrest, which cleared the way for Nasser to become president" (Kassem 2004: 13). The power struggle determined the relationship between the government and organised labour, which had a significant impact on the development of the social welfare system in the Nasser era.

Simultaneously, the power struggle transferred the character of rule, from collective rule by the Free Officers to Nasser's individual rule. When the RCC was dissolved and Nasser was elected President in 1956, Nasser's rule was formalised by the constitution. The 1956 constitution entitled the president to appoint and dismiss ministers, shifting from the parliamentary to the presidential government system. Through this system, Nasser replaced some of the Free Officers with civilians loyal to him (Kassem 2004: 17).<sup>4</sup> Indeed, "whereas in 1954 Nasser used his closest associates to strengthen his position against Naguib and civilian opposition groups, now with consolidation of his position in 1956 after the elimination of his opponents he brought more civilians into the government to head new departments concerned with economic, agrarian and social problems. Such alternation of personnel for his retention of power ... was a trademark of Nasser's rule and

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<sup>4</sup> At that time, for instance, Gamal Salim, Anwar al-Sadat, and Hasan Ibrahim were expelled.

political style throughout his Presidency” (Vatikiotis 1991: 388).

Although the Free Officers initially had no intention of entirely controlling the economy, they recognised the importance of an active role for the state in industrialisation projects. In the 1950s, Egyptian industrialisation began to shift from the initial stage of industrialisation (mainly based on light industries) to the next stage. For further economic growth, therefore, active intervention by the state was needed because of the absence of a domestic industrial bourgeoisie in Egypt. Thus, the new government embarked on industrialisation projects in chemicals and engineering products. Although it encouraged private companies to participate in these projects, it was directly involved in their finance and management (O’Brien 1966: 84).

The 1952 Revolution removed obstacles for the social welfare development, such as conservative political actors who had been dominant in the pre-revolutionary era. Also, the subsequent power struggle between Nasser and Naguib revealed that organised labour played an important role in the new political arena. However, the Revolution did not provide the new government with a strong driving force for the consolidation of the social welfare system. In other words, the 1952 Revolution was a permissive condition, not a productive condition, for a critical juncture of the social welfare development in Egypt for two reasons. First, government commitment to industrialisation projects was limited, although it actively intervened in several industrialisation projects. The industrialisation projects depended heavily on investment from the private sector. The new government also had no intention of playing a pivotal role in the economy and wanted to restrict its role to financial support and planning in industrialisation projects. Therefore, the size of the public sector remained small and welfare provision by the state were restricted to those of the pre-revolutionary era. Second, the new regime did not successfully institutionalise the relationship with organised labour even though Colonel Nasser mobilised trade unions during the political struggle against General Naguib. The government found the Liberation Rally to be a failed organisation and replaced it with the National Union in 1956. These political and economic features changed after the nationalisation of the Suez Canal in 1956, which was one

of the productive conditions for the development of the social welfare system.

***B. The Productive Conditions: The Nationalisation of the Suez Canal and the introduction of Arab Socialism***

As discussed in **Chapter 1**, there is no logical connection between permissive conditions and productive conditions. After the appearance of a permissive condition (the 1952 Revolution in this case), political or economic events happen and become productive conditions for a critical juncture. In this case, there were two political events which may be regarded as productive conditions: (1) the nationalisation of the Suez Canal and (2) the introduction of Arab socialism. Both of the events were accidentally triggered by international or regional turmoil. These two productive conditions consolidated the political and economic structures in Egypt and had a significant impact on the development of the social welfare system.

The first productive condition, the Suez Crisis in 1956, led to further changes in the political and economic structures in Egypt. The nationalisation of the Suez Canal was caused by the US refusal to provide financial aid to Aswan High Dam and triggered a war with the United Kingdom, France and Israel. The most important point for the development of the Egyptian social welfare system was that this war led to change in the economic structure. The new government confiscated French and British companies and expanded the public sector as a result of the Suez War.<sup>5</sup> In November 1956, it decided to take over all British and French banks and companies, a total of 15,000 establishments. These enterprises were supervised by a semi-public company, the Economic Organization, which was newly founded in January 1957. At the same time, all banks, insurance companies, commercial houses and agencies were confiscated by the government (Vatikiotis 1991: 396). After this war the government played a more active role in the economic planning.

The government recognised the inefficiency of relying on the private sector as a driving force of drastic economic growth before the war, and decided that further intervention by the state was needed for rapid industrialisation. It paid more attention to the incompatible gap between the

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<sup>5</sup> Even before the Suez War, the government nationalised some companies, whose owners were antagonistic to the ruling group in junta. In 1955, for instance, a sugar company owned by Ahmed Aboud was nationalised (Hansen 1991: 126-127).

government's ambitious targets and the means for economic growth that were controlled by the private sector.

Exhortations, incentives, and indirect controls would not and could not ensure that the private sector complied with the patterns of production and investment established for it by the planners. In every case which entailed an incompatibility between ends and means the government almost invariably reacted by increasing the power of the state rather than adopting the alternative path of negotiation and compromise. Hardly ever was the Military Junta diverted from its chosen aims by the presence of traditional patterns of ownership and control over productive resources. As soon as contradictions emerged, the Junta simply altered the institutional and legal framework in order to make the economy amenable to control from the centre (O'Brien 1966: 240).

Such dissatisfaction with the private sector encouraged the state to play an active role in industrialisation.

Following the confiscation of British and French companies during the Suez War, the Nasser government embarked on the nationalisation of several domestic banks, represented by the Misr Bank, in 1960. At the time, the bank had £E 100 million in deposit. More importantly, it worked as a holding company for various industrial and commercial companies:

The Misr Group owned the largest textile center in the Middle East at Mahalla al-Kubra and its various affiliates accounted for 60 percent of all textile production and 53 percent of employment in the textile sector. ... Nationalization was justified on the grounds of breaking up an effective monopoly that *could* use its weight to thwart public development policy [italics in original] (Waterbury 1983: 72).

Moreover, the Nasser government attempted to control the economy through economic planning. Since the mid-1950s, the government actively framed serious plans for economic development. In 1957 it began formal agricultural and industrial planning. A comprehensive five-year plan (for budget years from 1960/61 until 1964/65) was introduced in 1959 (Hansen 1991: 128-129). The plan "set out detailed investment, saving, production, and consumption targets for every part of the economy. Its ambitious aim, to double real national income over decade, received great publicity throughout the Arab world, and Egyptian leaders became deeply committed to its success" (O'Brien 1966: 310).

This expansion of the public sector was justified by the concept of 'socialism'. Colonel Nasser

had frequently used the term of 'socialism' since the Bandung Conference in April 1955.

On December, 1957, Nasser announced the idea of "socialist, democratic and cooperative society." He defined his ideal society in a variety of ways, such as a society without exploitation, a society of owners, a controlled economy, and a controlled capitalist economy (Dessouki 1982: 59)

President Nasser flexibly used the term 'socialism' with various meanings to justify his political choice in specific policy areas. His choice was not based on a specific dogma, such as Marxism in the Soviet Union, but determined by trial and error. This style of decision-making was named 'pragmatic socialism' by *The Economist* (Anon. 1964).

Nasser's socialism was gradually incorporated into various political organisations, encouraging President Nasser to adopt an organisational proliferation strategy. As he had already found the Liberation Rally insufficient as a political front before the war, he replaced it with the National Union. The National Union established a denser network in the whole nation and created a basic unit in each village (in rural areas) or each city quarter (in urban areas) (Binder 1966: 230). The organisation had a hierarchical structure based on villages, quarters, governorate capitals, and at the top, a National Congress and executive committee. Every citizen was obliged to participate in the National Union. Although this organisation was ideologically based on a vague socialism, his approach was a blend of the approaches of Peron (Argentina), Salazar (Portuguese), Tito (Yugoslavia) and Ataturk (Turkey). The National Union claimed that it was not a political party because political parties in general implied partisanship, class conflict and division. Rather it was an assemblage or a political front to serve national unity beyond the interests of specific social strata or classes (Waterbury 1983: 313). This was Nasser's strategy of expanding a basis of political support not only to the launching organisation (i.e., the military) but to the populace through the establishment of a more institutionalised political party.

Nasser's 'socialism' stimulated the organisational proliferation strategy and encouraged the new political organisation – the National Union to co-opt organised labour into itself. According to Marsha Posusney (1997: 60-61) the corporatisation of organised labour in Egypt began after the Bandung Conference (April 1955) and imitated that of Yugoslavia:



With the working class and workers' organizations given a high status in Yugoslavia's formal ideology, at least, if not in practice, Nasir became embarrassed at the underdevelopment of labor policies in Egypt. The Labor Bureau [in the National Union] took the initiative to convene a large meeting of trade union leaders where the establishment of an informal organization to function unofficially as a confederation was proposed.

In response to the government move towards the corporatisation of organised labour, union activists also attempted to create a single, hierarchically-ordered union confederation. Some ruling elites especially in the Ministry of Interior and the security forces were opposed to the corporatisation, because the political influence of organised labour would penetrate into the government. However, in 1957 President Nasser finally admitted the formation of a singular confederation of trade unions – the Egyptian Workers' Federation (EWF),<sup>6</sup> in exchange for the government's right to select the confederation's leaders (Posusney 1997: 61-63).

It should be noted, however, that the relationship between the state and organised labour was not consistent. Even though the labour movement played an important role in society, trade unions were always faced with risks of suppression by the state. In the two years prior to the EWF's foundation, individual unions became larger. The EWF attempted to expand its membership base by incorporating independent trade unions and restructuring subsidiary unions along industrial lines. Such expansion made conservatives suspicious about the labour movement. At the end of 1958, the labour movement was temporarily suppressed until 1959 as a result of the government's anti-communist campaign. During this campaign, almost all union activists were arrested. Although the unified labour code allowed trade unions to establish a single, centralised confederation, this attempt was deliberately delayed by its opponents. The Ministry of Interior reported that trade unions contributed to political destabilisation and the establishment of a single confederation would increase the danger (Posusney 1997: 64-67).

A regional factor pushed President Nasser further along a more radical path. In 1958 Egypt unified with Syria and formed the United Arab Republic (UAR). Nasser was elected to be President

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<sup>6</sup> Although the EWF was reorganised and became the Egyptian Trade Union Federation (ETUF), it remained essentially the same organization (Solidarity Center 2010: 11).

of the UAR. Although the unification continued for eight years, Syrian politicians, especially the rightists, were dissatisfied with Nasser's political dominance. In 1961 the Syrian rightist military planned a coup and successfully declared their withdrawal from the UAR. The Syrian withdrawal from the Republic made President Nasser fear reaction within Egypt, especially from reactionary politicians. President Nasser decided to take further socialist measures to pre-empt reactionary actions. At the same time, he feared that the National Union might serve as a platform for reactionary activists rather than remaining a bastion against the right. Consequently, the National Union did not function as a channel to reflect interests of the members to government decisions (Waterbury 1983: 313-314).

Neither the Liberation Rally nor the National Union debated or had any discernible influence over the regime's most significant decisions: nationalization of the Suez Canal, [and] unity with Syria (Waterbury 1983: 314).

In the beginning of the 1960s, the Nasser government recognised that the National Union, which was replaced by the Arab Socialist Union (ASU) after the introduction of Arab socialism, had been useless as a political front.

In 1962 the government revealed that the country would adopt a unique style of socialism – Arab socialism (the second productive condition for the development of the Egyptian social welfare system), making the Charter (*al-mithaq*) public. The Charter justified Nasser's strategy of introducing socialism, asserting that the choice was inevitable for the achievement of social freedom:

The socialist resolution to the problems of economic and social underdevelopment in Egypt – with a view to achieving progress in a revolutionary way – was never a question of free choice. The socialist solution was a historical inevitability imposed by reality, the broad aspirations of the masses and the changing nature of the world in the second part of the 20th century (Information Department 1962: 49).

In his speech in Cairo, Nasser stated that the Arab socialism would be explicitly different from Western-style socialism, such as Marxism, because the latter does not recognise the existence of religions and asserts the proletariat's dictatorship. At the same time, he emphasised that a goal of 'Arab socialism' was the construction of a secular, classless society with a mixed economy (Hansen

1991: 115).

Prior to the declaration of Arab socialism in 1962, the government issued several nationalisation laws. Law 117/1961 stipulated that the government would nationalise all remaining private banks and insurance companies, and companies in heavy or basic industries and shipping. In nationalising these companies, the government converted their shares to fifteen-year government bonds. Law 118/1961 forced another 83 private companies to sell more than 50% of their shares to public institutions. Law 119/1961 provided for the nationalisation of companies whose value of shares per shareholder exceeded £E 10,000. This law affected 147 medium-sized companies (Waterbury 1983: 73-74).

The market value of the shares of the companies affected by Laws 117-119 has been estimated at £E 258 million, of which the state acquired £E 124 million. In 1963 and 1964 most of the shares that remained in private hands were transferred to the state (Waterbury 1983: 74).

In 1961 and 1963, nationalised industrial sectors were reorganised into 160 joint stock companies (*muassasat amma*), which were controlled by eleven semi-public organisations. As a result, most of the main enterprises in manufacturing and trade came under the government's ownership and led to the downfall of wealthy families and entrepreneurial class (Hansen 1991: 126-127). This new economic system stimulated rapid industrialisation in the country. The importance of industry increased after the coup, from only 10% in 1952 to more than 20% of GDP in 1962 (Vatikiotis 1991: 399). Moreover, "the control of industry, transport, finance and trade was transferred to the State. The government budget came to account for over 65 per cent of GNP" by the 1960s (Vatikiotis 1991: 396).

The introduction of Arab socialist ideas gradually created a consensus that organised labour was a powerful government supporter and contributed to the consolidation of the relationship between the regime and organised labour. According to Bianchi (1989: 132), trade unions for government employees had been prohibited to prevent these employees from becoming infected with labour radicalism before 1959. As trade unions became a semi-official partner, unions of government workers were regarded as key players to prevent the radicalisation of the labour

movement. Some ruling elites supported the labour movement. In January 1961, Husayn al-Shafi'i "convinced Nasser that one hierarchical union structure is less of a threat than many small ones, since it is easier for the government to keep undesirable elements out of the leadership of a single confederation, and since a handful of leaders are easier to manipulate than many. The confederation leaders were then able to proceed with the reorganization of the union movement. By January 1961, 59 of 65 federations designated by Law 91 had been formed" (Posusney 1997: 67).

The political structure was now characterised by the pro-labour single-party and a corporatist system. Nasser had repeated his attempts to unite many political parties in a single party to control the society. His attempts shaped the ASU in 1962. Whereas its predecessor, the National Union, did not establish its organisation along occupational or functional lines, the ASU established the corporatist structure based on occupational or functional lines (Waterbury 1983: 313). It is undeniable that the ASU could not take an initiative in the political decision-making process and never worked as a totalitarian party (such as the Communist Party in the Soviet). It was a mere vehicle for Nasser. Whereas only ASU members were allowed to participate as candidates in legislative elections, the ASU screened potential candidates. This means that, through the screening, Nasser was able to choose candidates with loyalty to him personally (Kassem 2004: 18). Indeed, the following two cases show its effectiveness as his political vehicle:

The first role was the role of the 'political vanguard' in uncovering the Ikhwan [Muslim Brotherhood] conspiracy of mid-1965, as revealed by Nasser himself. The second instance of effective performance came on the night of 9 June 1967, and during subsequent months when the ASU helped rally the pro-Nasir masses against various conspiracies emanating from the military and to a lesser extent from the secret police (Dekmejian 1972: 154).

Despite the fact that the ASU functioned as Nasser's instrument for maintaining power, this organisation symbolically represented the interests of workers and peasants. In all elected bodies, half of the representatives were elected from workers and peasants (Waterbury 1983: 325).

In summary, the Nasser government demonstrated a new survival strategy that was completely different from that in the pre-revolutionary era. It removed, by a coup d'état – the 1952 Revolution,

several political actors who had been dominant in the pre-revolutionary era: the Palace, the British Authority and the landlord class. Although the revolution removed obstacles for the expansion of the social welfare system, the government did not have an ‘engine’ for the expansion. Therefore, the 1952 Revolution was the permissive condition for the development of the social welfare system. The nationalisation of the Suez Canal was the first engine, triggering the confiscation of British and French companies and expanding the public sector. Following the war, the Nasser government introduced Arab socialism to legitimise his rule. This ideology also fuelled the social welfare expansion. In this process, the Nasser government adopted an organisational proliferation strategy, co-opting organised labour into the regime and granting to it social security and symbolic representation in exchange for control over organised labour. As this pro-labour tendency had significant impact on the development of the social welfare system in the Nasser era, these events were the productive conditions for the development of the social welfare system.

## **2-2-2. Nasser's Survival Strategy and the Development of the Social Welfare System**

Following the 1952 Revolution (the permissive condition), the Free Officers often mentioned the achievement of social justice through fair income distribution. General Naguib noted in his book that the Liberation Rally promised to establish a fair system for its members:

A social system designed in which all citizens shall be entitled to protection against the ravages of unemployment, illness, and old age – i.e., a “welfare state.”

An economic system designed to encourage a fair distribution of wealth, full exploitation of natural and human resources, and the maximum investment of new capital (Naguib 1955: 184-185).

In a speech on 30 April 1954, Colonel Nasser also addressed the importance of social policies, remarking as follows: “I can’t understand how there can be freedom if I am not free to find my bread and make a living, free to find employment” (Dessouki 1982: 58). However, despite repeated references to social justice and social welfare, the new government did not implement significant social reform (except the agrarian reform) in practice (Dessouki 1982: 58-59).

After Colonel Nasser won the power struggle against General Naguib, the new leader Nasser published the new Constitution of 1956, which expected the state to play a pivotal role in alleviating economic inequality through income redistribution.

The constitution established a number of social obligations on the part of the government. Every citizen had the right to social security, medical care, housing, and education (Part II, Article 21). The state was responsible for the ensuring of a decent standard of living for all citizens and the provision of social, cultural, and health services. Egyptians had the right to education (Part III, Article 49). ... It was a government responsibility to establish hospitals and ensure medical care (Dessouki 1982: 60).

The government was ready to prepare an ideological base for the development of the social welfare system in the mid-1950s, but the size of the social welfare system was restricted, as will be discussed later.

However, after the nationalisation of the Suez Canal Company, the political and economic climate significantly changed and led to the expansion of the social welfare system. There were three significant features that determined the design of the social welfare system: (1) the state-dominant economy (*etatism*), (2) the alliance with organised labour and (3) Arab socialism. The first feature was the state-dominant economy. Although the Nasser government aimed to construct an economy that was directed by the state, it initially expected the private sector to play a pivotal role in industrialisation. Nasser gradually changed his attitude to desirable economic structures and aimed to control measures of production in the private sector. The Suez War enabled the Nasser government to nationalise the main companies in the country. Accordingly, the state became not only a commander of the economy, but the most dominant economic player. Under this condition, the social welfare system was also expected to work to maximise successful industrialisation. The second feature was the ruling coalition – the alliance with organised labour. Whereas the Nasser government maintained a strong tie with his launching organisation – the military, it also adopted an organisational proliferation strategy by co-opting organised labour to his regime. It should be noted that organised labour was not an independent actor in politics in Egypt, unlike in democracies. For the Nasser government, the labour movement was a mere tool to

strengthen his authoritarian rule. This organisational proliferation strategy encouraged the government to address distributive justice:

The official line was that Egyptian workers did enjoy many rights, many more than the labor movement had asked for at the time. The government provided social and economic security and symbolic representation ... in exchange for its control over the labor movement (Dessouki 1982: 73).

Although social rights were superficial, the Nasser government established a social welfare system that favoured urban workers (and organised labour) to achieve social rights. The third feature was Arab socialism, which was the most important feature for path-dependent change in the social welfare system. Although Arab socialism was quite different from ‘true’ socialism (such as Marxism), it provided the social welfare system with a secondary (but important) role. The introduction of Arab socialism allowed the Nasser government to justify its rule by achieving social justice via generous welfare provision.

These three features led to the ‘dualist’ social welfare system, which consisted of two layers: (1) industrial programmes and (2) residualist programmes. The first layer, the industrial programmes were designed to contribute to Nasser’s industrialisation project and were in favour of organised labour. They were represented by (1) the social insurance programme, (2) the food subsidy programme and (3) the public employment programme. The social insurance programme exploited the profits, which were collected from the insured, to invest in government projects for industrialisation. In addition, the food subsidy programme functioned as a mechanism for transferring resources in the agriculture sector to the industrial sector by providing inexpensive foodstuffs to urban workers (see **Chapter 4**). The public employment programme played an important role in supplying human resources (i.e., university graduates) to the growing public sector (see **Chapter 5**). The second layer, the residualist programmes were not directly connected with industrialisation and targeted the vulnerable, represented by (1) the healthcare programme and (2) the social assistance programme. Although these programmes were not expected to contribute to industrialisation, the introduction of Arab socialism enhanced their importance as mechanisms to deliver welfare benefits to the vulnerable. Although the government made a gesture to expand these

programmes after the introduction of Arab socialism, the expansion was restricted because of financial constraints. Whereas the main resource of social insurance was contributions collected from employees and employers (not from the exchequer), these residualist programmes were entirely dependent on the government support. An ambiguous case between the first and second layers was the housing programme. Although it originally aimed to supply cheap accommodations to the vulnerable, its benefits were spilled over the middle class. The government actively provided housing units to civil servants and urban workers in the formal sector, who were categorised as the middle class in Egypt. As a result, the housing programme was strongly connected to urbanisation and industrialisation.

***A. Case (1): The Social Insurance Programme – An Industrial Programme***

The social insurance programme was developed after the 1952 Revolution. Although the pension programme had already been introduced in the pre-revolutionary era, it only targeted civil servants and military personnel and was not based on their contributions but on tax. The programme consisted of the following five schemes: (1) work injury, (2) old-age, (3) disability and death, (4) unemployment and (5) health insurance.

The targets were categorised into two groups: government employees and workers in the private sector and public enterprises. As for government employees, Law 316/1952 provided that an insurance and provident fund should insure them against death during their work (Garrison 1976: 133). In 1956 social insurance funds for them were established and began old-age pensions. Income was raised from both employees and the government. While the employees paid 10% of their salaries as contributions, the government also paid the same amount and then increased it to 12.5% (Hansen & Marzouk 1965: 217). Social insurance for workers in the private sector and public enterprises was created according to Law 419/1955. To implement the insurance scheme for them, the Insurance and Provident Fund was established in 1956. The workers paid 5% of their salaries and their employers had to pay the same amount (Hansen & Marzouk 1965: 218-219). Law 202/1958 was furthermore enacted to improve a scheme to compensate for employment injuries,



which had been first established in 1936. The insurance scheme for workers in the private and public sectors was integrated in 1959. This new scheme dealt with three types of social risks: (1) work-related injuries (including occupational diseases), (2) old-age and (3) disability and death. Also, the 1959 law provided that a health insurance scheme should be set up within 12 months from 1 August 1959 and an unemployment insurance scheme should be established within three years of that date (ILO 1960: 1).

The main beneficiaries of the social insurance programme were urban workers, especially employees in the government sector and public enterprises. In principle, this law was supposed to apply to all wage earners and apprentices except agricultural workers, casual workers, members of employers' families and domestic servants. As for work injury insurance, the following workers were also included in this scheme: "(1) agricultural workers working with machinery or exposed to the risk of certain occupational diseases mentioned in the Act, (2) temporary and casual workers, (3) seasonal workers, (4) workers who are liable to be transferred frequently or who are engaged in loading and unloading work" (ILO 1960: 2).<sup>7</sup> Therefore, more than half of the workers covered by social insurance lived in Cairo and Alexandria Governorates at the time of 1970/71. Since pensions were based on wages and many white-collar workers eligible for high pensions were likely to live in Cairo, the average pensions in Cairo (£E 9.8 per month) were accordingly higher than those in other governorates (£E 7.5 per month). The exception was the Suez Governorate, where employees in the Suez Canal, fertiliser, and petroleum sectors gained relatively high wages (Garrison 1976: 223).

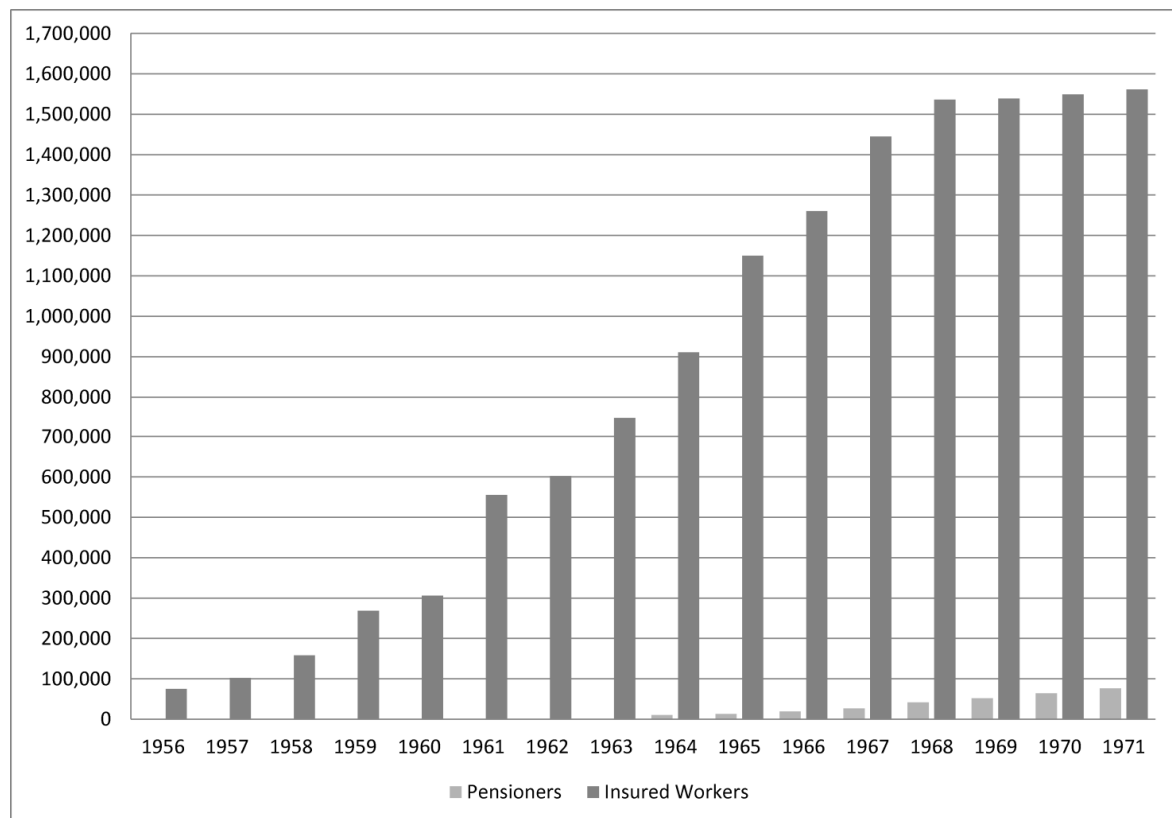
Among urban workers, workers in the public sector (including government institutions and public enterprises) were the core beneficiaries of the social insurance programme. Most wage earners in the private sector were not covered by the social insurance programme because their employers did not take part in this scheme in order to reduce their costs (Loewe 2000: 14). Some

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<sup>7</sup> In the beginning, however, the government admitted several exceptions. Employers and workers who were already covered by private insurance, such as provident funds, pension schemes, and collective insurance schemes, were temporarily discharged from this compulsory insurance programme and were supposed to be gradually included into the scheme. The number of workers participating in such private schemes was estimated at 70,000-80,000 (ILO 1960: 2).

employers in the private sector prevented the government from collecting contributions. The example was “the formation of fictitious companies in which the workers were ‘partners.’ Since they were no longer ‘workers’ they fell outside the scope of the law and hence the employer was not legally required to pay social insurance taxes on them” (Garrison 1976: 242).<sup>8</sup> In another example, employers “hired workers on a temporary basis and then rehired them, thus avoiding the obligation to pay social insurance since only ‘permanent’ workers were covered under the law” (Garrison 1976: 242).

**Figure 2.1: Social Insurance – The Number of Pensioners and Insured Workers (1956-1971)**



Source: Garrison (1976: 220), Table 21.

Therefore, the number of workers covered by the social insurance programme had almost doubled with the large-scale nationalisation in 1961, from approximately 300,000 in 1960 to 555,000 in 1961 (Garrison 1976: 221). Workers in industry, construction, transportation, the Suez

<sup>8</sup> Such evasive method was prohibited in 1971.

Canal, trade and finance, communications were gradually included into this scheme. The number of insured workers in 1971 became almost twenty times as large as those in 1956, from 75,412 (1956) to 1,561,344 (1971) (see **Figure 2.1**). Moreover, as the number of insured workers increased, the number of pensioners also rose. According to Jean Garrison (1976: 222), the number of pensioners rose seven-fold, from 10,284 in 1964 to 76,743 in 1971 (**Figure 2.1**). The average monthly pension simultaneously doubled, from £E 4.565 to £E 8.266, while wholesale food prices increased by approximately 31% during this period. According to the government's statistics, expenditure on old-age pensions accounted for more than 50% of total expenditure on the social insurance programme in 1971. The second largest expenditure was on pensions for survivors (32.8% of the total expenditure). Expenditure on the two schemes exceeded 80% of the total expenditure on the social insurance programme (Garrison 1976: 226).

The number of types of insurance also increased besides the existing three types: (1) work injury, (2) old-age, and (3) disability and death. The first case was unemployment insurance. Whereas the government began to collect contributions for unemployment insurance from employees, it also started payments to unemployed people in 1965. Unemployment insurance was influenced not only by economic fluctuations but by political conditions.

‘Abd-al-Halim al-Qadi of the social insurance organization attributes the relatively large number of cases during 1967-70 to economic dislocations caused by the June 1967 war. The large size of the average benefit for 1967/68 was also a result of the war: workers in the Canal Zone governorates who lost their jobs as a result of the war received unemployment compensation, and as these workers were considerably better paid than other workers their unemployment checks were larger (Garrison 1976: 231).

The second case was health insurance. Although the Nasser government attempted the expansion of health insurance, the expansion was faced with strong opposition in comparison to the expansion of other schemes. There were two functions in this insurance programme: curative services and compensatory payments to lost wages of injury or ill workers. Whereas the former programme covered both private and public sector workers, the latter was only for government workers. The curative service was unpopular with both doctors and workers, especially those working in big

companies. Even before the introduction of the health insurance initiative, large companies were required to provide medical services to their employees under the labour laws. For doctors, this had generated higher earnings than those paid through the health insurance scheme, and the introduction of health insurance meant that they would lose such earnings. Organised workers were also opposed to this programme. As mentioned above, workers in large companies already enjoyed medical services offered by their employers. The new health insurance scheme forced workers to pay contributions (1% of their pay), but they saw no improvement to benefits. Also, workers were against the health insurance scheme because it made it more difficult to obtain sick leave. Under the health insurance scheme, workers needed a doctor in the social insurance organisation to certify their illness before they could take sick leave. Doctors were likely to examine the reasons for sick leave and, accordingly, the average days of sick leave in companies covered by health insurance decreased, from 8 days to 2.1 days (Garrison 1976: 244-246).

The social insurance programme in the Nasser era had several pro-labour features even if the expansion was implemented despite worker opposition. The most significant feature was that trade unions were able to shape the social insurance programme. As well as implementing changes to social insurance laws, they also played administrative roles and attended Social Insurance Organisation (SIO) board meetings. By January 1975, the number of the workers' representatives was two out of six board members in total. The trade union federation in Egypt was able to influence these issues through weekly meetings with the administrators of the social insurance programme. At these meetings, workers' interests were reflected in amendments to the social insurance programme. Organised labour was also able to influence decision-making in local administration. Each local union committee had to select a union member responsible for the implementation of social insurance. He/she had to take a short-term course on social insurance, which was offered by the Social Insurance Institute (founded in 1965). After the training course, he/she worked full-time on the payment of old-age pensions and was temporarily discharged from his/her job in the company. The implementation of the social insurance programme in the country

was sustained by workers and organised labour (Garrison 1976: 168-172).

It is worth pointing out that the social insurance programme functioned as a resource for Nasser's industrialisation project. This was clear from the fact that the government made little commitment to social insurance for workers in the private and public sectors in general. Along with the increasing influence of Arab socialism in politics, "social insurance contributions were raised to 7 per cent from the employee and 17 per cent from the employer [in 1961]. In March 1964, these contributions were further increased to 33 per cent of the salary; 10 per cent was paid by the employee and 23 per cent by the employer" (Abdel-Fadil 1980: 31). Whilst the government expended the money equal to 15.5% of salaries of government workers on their insurance, it paid only 1% of salaries of workers in the private and public sectors. This means that the main resources in this scheme did not come from tax but from contributions paid by workers and employers (Garrison 1976: 236-238). This motivation encouraged the Nasser government to expand the health insurance scheme despite the strong opposition by workers and doctors, as discussed above.

Indeed, social insurance for workers in the private and public sectors worked as a mechanism to absorb contributions from workers and private companies to the government and enabled it to invest in long-term industrial projects. In 1961 this social insurance scheme brought a surplus of £E 9.2 million, most of which was invested in long-term projects and government undertakings (see **Table 2.1**). Social insurance for government employees also brought a surplus although the resources were originally from the national revenue. In this case, the surplus was invested in various projects and the insurance scheme received a return from the investments (£E 4.7 million in 1961/62) (Hansen & Marzouk 1965: 217-219) (see also **Table 2.2**). Muhammad Badran, director general of the Social Insurance Organisation, stated that "there were three goals of social insurance: limiting inflation, contributing towards financing the development plan, and forming reserves capable of meeting all social insurance requirements" (Garrison 1978: 290). His remark represented the government's motivation to utilise insurance contributions for long-term investments.

**Table 2.1: Social Insurance Surplus, 1956-1963 (£E million)**

	Total receipts	Total expenditure	Surplus
1956	1.1	0.2	0.9
1957	2.3	0.7	1.5
1958	3.1	0.7	2.4
1959	4.1	1.0	3.1
1960	7.5	1.8	5.7
1961	12.7	3.6	9.2
1962	n/a	n/a	20.9

Source: Hansen & Marzouk (1965: 219), Table 8.3.

**Table 2.2: The Social Insurance Fund for Government Employees (1956-1962)**

Year	Number of beneficiaries (thousands)	Excess of receipts over payments (£E million)	General reserve (£E million)	Return from investments (£E million)
1956/57	204	7.3	24.4	0.7
1957/58	221	12.5	36.9	1.1
1958/59	228	12.3	49.2	1.3
1959/60	582	15.7	64.9	2.0
1960/61	600	20.8	85.8	2.5
1961/62	625	24.9	142.2	4.7

Source: Hansen & Marzouk (1965: 217), Table .8.2.

### ***B. Case (2): Healthcare – A Residualist Programme (1)***

Since the 1952 Revolution, the government promoted the popularisation of social welfare programmes that had been restricted to privileged classes in the pre-revolutionary era.<sup>9</sup> Healthcare was a typical case. The Nasser government also publicised its commitment to social justice through the expansion of the healthcare programme in leaflets distributed to foreign countries.<sup>10</sup> According

<sup>9</sup> In a broader meaning of social welfare programmes, this trend could be found in the expansion of the universal education programme. In the first decade after the coup, 350 primary schools were built in average. This change let illiteracy rate decline, from 77% of the population in 1947 to 56% in 1976. Enrolment rate in primary schools also rose, from 40% in 1953 to 77% in 1970 (Bayat 2006: 137). Whereas the popularisation of education contributed to social development in total, it should be noted that this strategy was biased to the middle class rather than the lower class and that, as explained below, it was strongly connected to Nasser's industrialisation and political mobilisation strategies.

<sup>10</sup> In the First Five-Year Plan, the government was supposed to spend £E5.6 million. Although the

to the government's report (Information Department 1964: 105-108), expenditure on healthcare increased by 34% in thirteen years after the 1952 Revolution. Government efforts increased the number of public hospitals in urban areas, from 90 (in 1952) to 116 (in 1964).

The number of health facilities administered by the government dramatically increased after the revolution. The number of beds in hospitals operated by the Ministry of Health more than doubled between 1952 and 1973, increasing from 25,710 to 56,223. ... In 1971, for every 10,000 persons there were 16 hospital beds under the auspices of the Ministry of Public Health and 6 under other auspices, making a total of 22 beds per 10,000 population (Garrison 1976: 74).

Comprehensive free healthcare theoretically became available in urban areas by 1975 (Garrison 1976: 173-175). At the same time, the government attempted to expand healthcare in the rural areas. "A project to generalise rural health units was instituted so that every unit would serve 5,000 inhabitants in a village or a group of villages not more than 3 kilometres apart. Units upon the completion of the project will number 2,500, of which 505 units were established and operated" (Information Department 1964: 105). Thanks to universal healthcare, any citizen in the country could enjoy medical services in public clinics without cost to the patient.<sup>11</sup>

Although this healthcare programme was apparently a great accomplishment of the 1952 Revolution and Arab socialism, the government could not keep up with popular demands for healthcare because of budgetary constraints. Overcrowded facilities encouraged the rich to use private hospitals, not the free public hospitals, even though the public services were free of charge. The healthcare programme could not resolve this problem and eventually restricted free access to the vulnerable. Urban workers (especially workers in the formal sector) used the health insurance scheme provided by the social insurance programme instead.

The disparity in standards between public health care and private care was implicitly apparent in the state goal to increase the scope of state health insurance: if adequate

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government spent 5% of the total budget for the Ministry of Health in 1965, this goal could not be achieved because of the financial constraints of repeated wars. The percentage fell down to 1.6% in 1970 and 1.1% in 1975 (Bayat 2006: 136-137).

<sup>11</sup> The government also struggled with the cost of the popularisation of medicine: "Medicines are available in qualities meeting the local consumers' needs and at moderate, prices within the reach of all. The State nationalized the import and distribution of medicine in 1960, allotted to its production investments estimated at 1,500% over the amount in 1952-53, and reduced customs duties by 25% of its price before 1960" (Information Department 1964: 108).

free health care were already available, health insurance would be redundant. However, the fact that the quality of health care under health insurance was akin to that of private care led to the development of health insurance and to efforts to expand the system (Garrison 1976: 174)

Consequently, the healthcare programme was categorised as residualist while health insurance provided by the social insurance programme was a core programme in the social welfare system.

### ***C. Case (3): The Social Assistance Programme – A Residualist Programme (2)***

At the beginning of revolutionary rule, the government was not interested in the expansion of social assistance and maintained the existing social assistance programme that the old regime had established. The government paid more attention to the social insurance programme than this programme and, therefore, did not drastically change this programme until the 1960s.<sup>12</sup> The ruling elite had thought of this programme as merely complementary to the main social insurance programme.

Adopting Arab socialist policies reaffirmed the importance of poverty alleviation programmes and the social rights of the vulnerable. The Nasser government adopted a strategy of utilising the social assistance programme as a tool to justify Arab socialist rule. In 1964 a new social assistance law (Law 133/1964) was enacted. In a preamble to this law, the government declares:

Because the Social [Assistance] Law was passed in 1950 under a regime that has since been abolished and because the law had many inadequacies, the government found it necessary to pass a new law to correct these inadequacies and to provide better benefits in accordance with the aims of the new regime (Garrison 1976: 176).

The new law expanded the programme. First, the new law expanded the targets. The 1950 law established that there were four groups entitled to receive social assistance pensions: orphans, widows with children, the disabled and senior citizens (over age 65). In contrast, the new law

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<sup>12</sup> An exception was the institutional expansion to retired bureaucrats in 1954. The cabinet issued a decree that the Ministry of Social Affairs was responsible for establishing a programme for retired bureaucrats in such conditions as: “(1) emergencies that might threaten the family, such as illness or the sudden loss of a part of the family's income; (2) the schooling of children; (3) the marriage of daughters; (4) the divorce of daughters within five years of their marriage, and (5) accidents while on duty if the employee or worker was not entitled to a pension” (Garrison 1978: 284). This is because the revolutionary government needed bureaucrats’ supports and loyalty at that time.



expanded its target to include divorcees with children. Also, this new law loosened several conditions in a means test. Both laws allowed a pensioner to receive income from paid labour or handicrafts. The new law provided that, if his/her income exceeded 50% of the value of the pension, his/her pensions were reduced (in comparison with 40% in the 1950 laws) (Garrison 1976: 176-179). Second, the new law loosened eligibility conditions and confirmed that any citizen would have the right to receive social assistance. “Under the 1950 law, pensions were available only if there were sufficient funds in the budget. The new law, however, amended this provision, stipulating that all eligible persons should receive pensions as a right and that consequently within a five-year period all necessary funds would be allotted to ensure that eligible persons received their pensions” (Garrison 1976: 182).

In response to the enactment of the new law, expenditure on the programme dramatically increased in 1964. Although the food price index increased approximately 50% between 1963 and 71, expenditure on the programme doubled during the same period, from £E 1.27 million in 1963 to £E 3.03 million in 1971 (**Figure 2.2**). Jean Garrison (1978: 287-288) analysed the increase as follows:

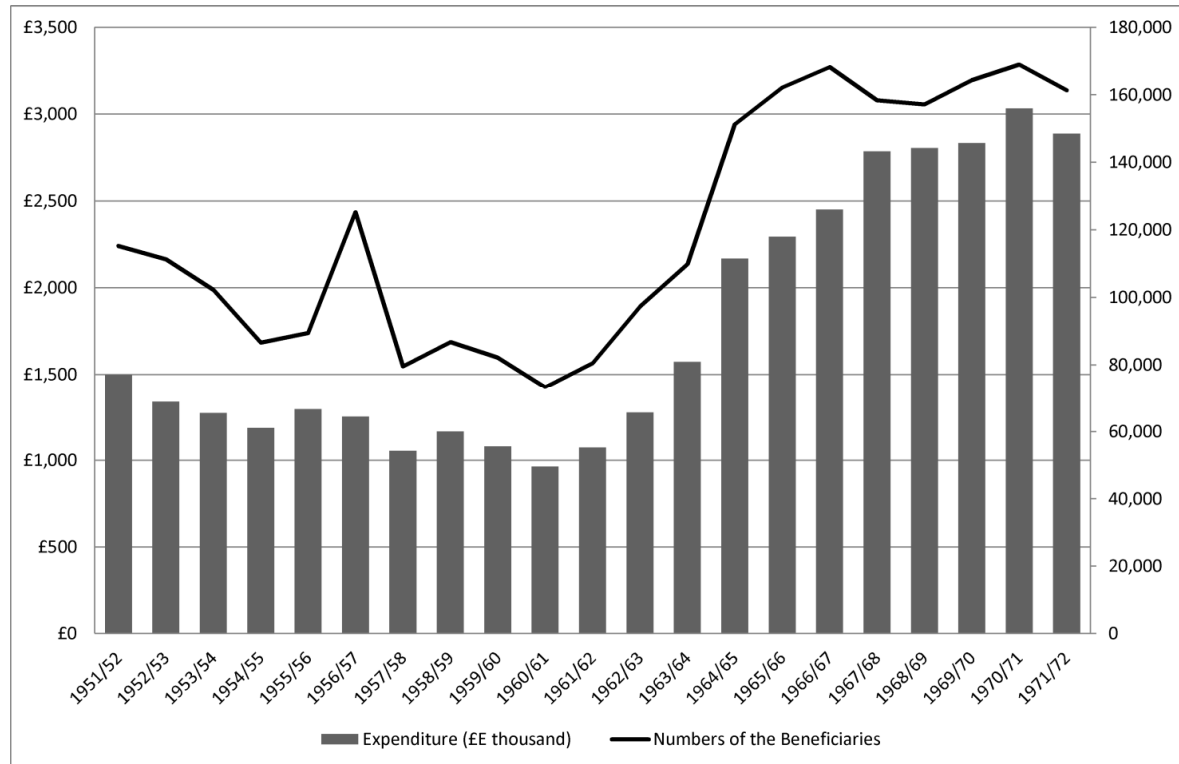
It is evident that the “socialist revolution” proclaimed in 1961 was the major reason for the increased expenditures. The “socialist revolution” consisted primarily of the nationalization of most large scale industries, increased coverage of workers under social insurance, and a new rhetoric, including a reaffirmation of the rights of the poor and of the commitments of the state to securing a decent income for all.

Whereas the social insurance programme was a core of the social welfare system, the social assistance programme was a complement to the social insurance programme and targeted citizens who were excluded from social insurance. The social assistance programme was therefore categorised as residualist.

As the expansion of the social assistance programme was motivated by ideology, the programme was not fully satisfied with the goal of poverty alleviation. Although the 1960 law had intended to allocate decent pensions to eligible people, the government was not able to achieve this goal because of financial restrictions. Consequently, the average social assistance payment was low

in all of the three categories: pensions, social aids and benefits to retired bureaucrats (Garrison 1976: 212). The achievement of Arab socialism was limited by budgetary constraints, unlike the social insurance programme that was financed mainly by insurance contributions.

**Figure 2.2: Social Assistance – The Total Expenditures and Total Number Families Benefiting, 1951/52 to 1971/72**



Source: Garrison (1976: 205).

#### ***D. Case (4): The Housing Programme – An Ambiguous Case?***

The housing programme was an ambiguous case lying somewhere between industrial and residualist programmes. The main purpose of the programme was to supply cheap public housing to citizens, especially vulnerable immigrants from rural areas. Even before the 1952 Revolution, the country had experienced a housing crisis because demand in cities exceeded supply as a result of rapid urbanisation. More and more people living in rural areas moved to cities, seeking better earnings. After the 1952 Revolution, the government dealt with this issue through rent controls. The importance of rents control as a part of the social welfare system had been recognised. The

government introduced a 15% rent reduction in 1952. This regulation was gradually applied even to new buildings constructed after the revolution (Abdel-Fadil 1980: 123).

The introduction of Arab socialism encouraged the Nasser government to intervene in the housing market not only indirectly as the regulator but directly as an agent. Approximately £E 6 million was distributed annually as investment in urban housing in 1960s. This programme aimed to provide inexpensive housing to those on lower-incomes. This investment enabled the government to construct nearly 10,000 units per year. Accordingly, it also recognised the importance of the housing programme as a part of social welfare programmes for lower-income citizens:

Construction of ‘popular dwellings’ (masakin) has become an essential element of the government housing policy in the 1960s, in which the Ministry of Housing and the Ministry of Wakf have been deeply involved. Such schemes of ‘popular dwellings,’ in poor areas of Cairo, were designed to raise the housing standards of Cairo’s low-income families (Abdel-Fadil 1980: 130-131).

In addition to the construction of public housing, rent control was reinforced. In 1962 the Rent Assessment Committee was established to enforce ‘fair rents.’ Law 46/1962 defined ‘fair rents’ as “not exceeding 5% of the value of the land on which the building is raised plus 8% of the cost of construction” (Abdel-Fadil 1980: 123).

It should be noted however that the housing programme was not necessarily categorised as a residualist programme but rather an industrial programme. The housing programme benefitted not merely those on lower-incomes but also wealthier citizens. The government offered various types of public housing and constructed residences for civil servants, army officers and formal-sector workers as well. The civil servants preferred public housing because it enabled them to reduce their housing costs and to supplement their low incomes. Moreover, as rent controls discouraged the private sector from investing in housing construction, wealthier urban workers tended to dwell in public housing. Since scarce resources were distributed not only to the lower classes but also to the wealthier classes, the effectiveness of this housing policy as a programme for the lower classes declined. Consequently, the housing programme became a social welfare programme for urban

workers (Feiler 1992: 299).

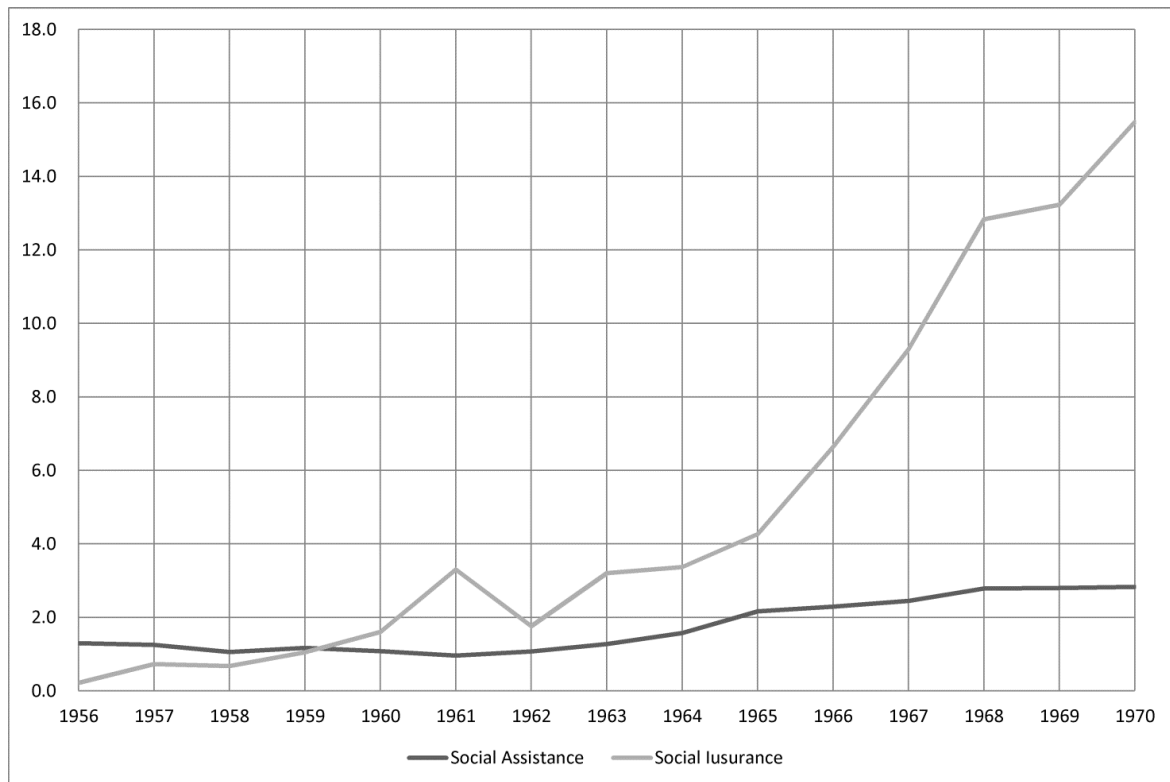
### *E. A Summary: The Social Welfare System during the Nasser Era*

Whilst the social welfare system had been restricted in the era of the British Protectorate, it was dramatically expanded by the Nasser government. Although the 1952 Revolution removed obstacles to social welfare expansion (the permissive condition), the social welfare system initially lacked an ‘engine’ for the expansion. The nationalisation of the Suez Canal Company became such an ‘engine’. As the government needed to justify the nationalisation, it more actively adopted the statist economic system. In 1962 the government declared the introduction of Arab socialism. The primary role of the social welfare system was to financially support industrialisation. The nationalisation of the Suez Canal and Arab socialist policies (the productive conditions) gave the social welfare system another significant role – ideological justification through generous income distribution.

Consequently, the social welfare system in the Nasser era had ‘dualist’ features, consisting of two programmes: industrial programmes and residualist programmes. The industrial, core programmes were pro-labour and designed to contribute to Nasser’s industrialisation projects. This research focused on the social insurance programme. The food subsidy programme (see **Chapter 4**) and the public employment programme (see **Chapter 5**) were also categorised as industrial programmes. Although these programmes benefited urban workers’ organised labour, they had little impact on the rest of the population. The corporatist connection with organised labour provided organised labour with a channel for influencing public policies, including social welfare policy especially after the consolidation of socialist ideas. The government regarded industrial programmes as tools to achieve social justice through fair income distribution, which was the core idea of Arab socialism, especially to urban workers. At the same time, they were linked to industrialisation projects, for example by re-investing social insurance contributions in government projects. In contrast to the industrial programmes, the residualist programmes were not necessarily connected with industrialisation. Their development was motivated by an ideology – Arab

socialism. To obtain popular support especially from the vulnerable, the government expanded these programmes. Although the introduction of Arab socialism fuelled the expansion of these programmes, the scale of the expansion was limited because of the financial restrictions. Indeed, the amount of social assistance benefits slightly increased even after the introduction of Arab socialism, whereas social insurance benefits exceed social assistance benefits in 1960 and dramatically increased thereafter. This was because the size of social insurance enlarged as the public sector increased (see **Figure 2.3**).

**Figure 2.3: A Comparison of Social Assistance and Social Insurance Benefits, 1956 to 1970 (£E million)**



Source: Garrison (1978: 289), Table 1.

It should be noted, however, that although social welfare programmes were divided into two – industrial and residualist programmes, the social welfare system was generally populist as Arab socialism allowed the government to legitimise its rule through generous welfare provision. For example, the social insurance programme attempted to cover more and more social risks by

expanding the categories covered, although its beneficiaries were generally restricted to urban formal-sector workers. As will be discussed in **Chapter 5**, the public employment programme socially protected the new middle class youth by guaranteeing public sector jobs to all university graduates. Moreover, the residualist programmes also attempted to deliver welfare benefits to the vulnerable, although their expansion was restricted because of the financial constraints. The populist feature had a significant impact on path-dependent change in the social welfare system after the Nasser era and stimulated the Sadat government to drastically expand the system.

### 2-3. The Legacy of the Arab Socialism and Positive Feedback Effects in the Sadat Era

In 1970 Anwar al-Sadat took office after the death of President Nasser. In the late 1960s, Egypt had experienced economic difficulties. To boost the economy, the Sadat government adopted a partial economic liberalisation policy (*infitah*), aiming to promote foreign investment in industrialisation. Whereas the Sadat government expected the huge public sector to play a critical role in economic production, it opened the market to foreign investors, from Western Europe and the Gulf countries in particular. According to conventional understanding, the *infitah* encouraged the country to shift from ‘distributive justice’ to ‘economic growth’ or ‘efficiency’. As Asef Bayat (2006: 138) remarks, “faced with a choice between ‘egalitarian / populist measures’ and ‘economic growth / productivity’, the [Sadat] regime eventually chose the latter”. This research, however, demonstrates that during the Sadat era the choice of ‘economic growth / productivity’ – the *infitah*, eventually addressed the importance of ‘distributive justice’, expanding the social welfare system.

To explain path-dependent change in the social welfare system during the Sadat era, first, this section explains that failures in Nasser’s project and Sadat’s choice – the *infitah* and political liberalisation (i.e., the introduction of multiparty elections) in the 1970s. Although the *infitah* was introduced to boost economic growth, it only benefited the business elites, providing them various opportunities to increase their wealth and make strong connections with the regime. It created

various economic difficulties for many citizens, such as unemployment and inflation and several social welfare programmes became dysfunctional. Accordingly, the income gap between the 'haves' and the 'have-nots' increased and damaged distributive justice. In addition, the introduction of multiparty elections did not benefit the populace because the government did not change its authoritarian characteristics. Instead it favoured the business elites because multiparty elections increased the costs. Theoretically speaking, the Sadat government abandoned the organisational proliferation strategy that Nasser had adopted, and reinforced patronage relationships between the government and the business class. As a result, political liberalisation in Egypt did not resolve the deficit of distributive justice, which encouraged the Sadat government to find another source of enhancing its legitimacy.

Second, this research demonstrates that the Sadat government regarded populist welfare provision, which stemmed from Arab socialism, as an alternative way of enhancing the legitimacy of Sadat's rule. Although the government exploited the concept of 'socialism' to legitimise welfare provision, it conceptualised welfare different from Arab socialism and used it as a manifesto that the government would continue populist welfare provision. This approach was strengthened after the food riots in 1977, when the government was forced to cut subsidies but to continue populist welfare provision. As a result, the social welfare system strengthened its populist feature (path dependence), which had a significant impact on its development during the Mubarak era.

### 2-3-1. The Political Economy of Sadat's Rule: The Economic Open-Door Policy (*Infitah*) and the Introduction of Multiparty Elections

#### ***A. The Twilight of Nasser's Rule: Economic Failures and Defeat in the 1967 War***

President Sadat was faced with serious economic difficulties when he succeeded Nasser in 1970. The causes could be traced to the mid-1960s and were divided into two: international and domestic factors. First, domestic factors led to a deteriorating economic performance in Egypt from the beginning of the 1960s onwards. Nasser's nationalisation strategy needed a huge amount of

foreign currency for compensation, such as payments to the United Kingdom for companies nationalised in 1956 (£E 25 million), compensation to shareholders of the Suez Canal Company (£E 27.5 million) and compensation to the Sudan for the construction of the Aswan High Dam (£E 15 million). Poor export performance also led to a trade imbalance, which reached £E 174 million in 1963.

In order to cover these deficits Egypt had constantly eroded its total net foreign exchange reserves which stood at £E 109 million on the eve of the first industrial plan and at £E 7 million in December 1962. In May 1962 Egypt reached a standby agreement with the IMF and immediately drew credits of £E 20 million (Waterbury 1983: 95).

Although the Nasser government devalued the Egyptian pound, this was not sufficient to boost exports. The government therefore needed to implement further retrenchment. President Nasser appointed the mildly rightist Zakaria Muhi al-Din to the post of Prime Minister. Prime Minister Muhi al-Din began negotiations with the IMF and worked out a 'background stabilisation plan'. It was supposed to include economic reform measures, such as further devaluation of the Egyptian pound, tax raises and the loosening of price controls. Although the plan was not executed, it was obvious that, even before the 1967 War, the country did not have sufficient resources to undertake further socialist measures (Waterbury 1983: 94-97).

Second, international factors also damaged the economy. Egypt intervened in a civil war in North Yemen between 1962 and 1967, triggering the payment crisis of 1962. The Yemeni civil war led to a deteriorating relationship with the United States and resulted in the suspension of American wheat shipments. Defeat against Israel in the 1967 War was a final blow to Nasser's rule. The defeat meant that Egypt lost two main engines of economic growth: the Sinai Peninsula and the Suez Canal. The former was occupied by Israel, having till then produced half of all Egyptian oil. The latter was closed during the war, which meant that the country completely stopped receiving related foreign currency revenue (Vatikiotis 1991: 412). As the country had lost several important resources of foreign currency (such as the Suez Canal, the Sinai oil fields and tourism), the industrial sector suffered from currency shortages and could not afford to invest in new projects,



which resulted in economic stagnation. Consequently, the perception spread that Nasser's industrialisation strategy had failed (Hinnebusch 1985: 36-37).

Defeat in the 1967 War had a serious impact on Egypt's political and economic structures. After the defeat, Nasser made modest concessions to the right and his political assertion of Arab socialism was toned down. Whereas the leftists claimed that the government should continue the revolution against the privileged classes and mobilised the masses, the rightists endorsed a prescription for the political crisis that Egypt should implement political and economic liberalisation to attract economic investment from the West. In response to the rightist claims, the Nasser government abandoned the radical mobilisation effort of the 1960s: the 'Socialist Youth Organisation' was dissolved, efforts to organize the lower-income class in rural areas ended, and peasant cooperatives were gradually neglected (Hinnebusch 1985: 37). As for economic policy, President Nasser initiated several plans to overcome Egypt's economic difficulties after the defeat in 1967. A result of his consideration was conveyed in the '30 May 1968 Paper,' which outlined the principles of his revised economic strategy. "This strategy rested on three pillars: (a) resource allocation would give priority to defense; (b) development would be maintained at a reasonable rate; and (c) subsidies and the policy of guaranteeing government employment to graduates would continue" (Ikram 2006: 19).

#### ***B. The Exclusion of the Left and the Economic Open-Door Policy (Infitah)***

When Anwar Sadat took office, it was obvious that Nasser's industrialisation strategy had failed. However, significant reforms were not implemented until the end of the October War in 1973. This was because the leftists who supported Nasser's socialist measures were still dominant and President Sadat had to deal with them. The leftists were represented by Ali Sabri, a Free Officer, senior party chairman of the ASU and Vice President. Although the group was small, it was well organised and had influenced the political arena in the 1960s. The faction was the majority on the ASU's executive committee. Also, this faction had strong networks in the Ministries of Interior and Information, or the security and police apparatuses. President Sadat represented the other rightist

faction. Although he had not been close to the centre of the power in the Nasser era, his rivals agreed to the appointment of Sadat as President because his rivals did not regard him as a powerful challenger against them. Contrary to their expectation, President Sadat successfully expelled Ali Sabri and his supporters from the political arena and re-distributed their positions to his own supporters (Hinnebusch 1985: 40-44).

Before the mass public, he [President Sadat] donned the mantle of Nasirism, for identification with Nasir and the Revolution was a legitimacy asset for which he had as yet no substitute. Those loyal to the Nasirite heritage were assured that its principles still governed Egypt's policy. In spite of Egypt's crunch, he tried to appease government employees with increases in wages and pensions (Hinnebusch 1985: 50).

However, President Sadat gradually attempted to embark on economic reform, removing leftists from the political arena. First of all, he encouraged rightists to criticise Nasser's policies.

Sadat portrayed himself as standing above this debate as a neutral arbiter, unwilling to see the ideals of the Egyptian revolution disparaged, but prepared to listen to those advocating changes in the methods of realizing them. In fact, Sadat was giving the 'green light' to the right wing to launch an open attack on Nasirism, as a way of broadening support for a new course (Hinnebusch 1985: 61).

The major attack concentrated on the fact that President Nasser was a dictator, focusing on the lack of political freedom, political suppression of his opponents and abuses of human rights. At the same time, President Sadat accused Sabri and his supporters of comprising the 'power centre' in May 1971 (the Corrective Revolution). On 2 May, Sabri was dismissed from his position (Vice President) and from the ASU. Within the following weeks, Sabri's supporters resigned their positions in the cabinet or the ASU:

Perhaps the conspirators had deluded themselves into thinking that they personally and the ASU as a whole had popular roots, that having gone public some segments of the masses (students, workers, the Vanguard?) would go into the streets to shout their names, and that with control of the police, [the Ministry of] Interior, and the armed forces they could restore order and their own power (Waterbury 1983: 351).

However, their attempt resulted in a failure and they were arrested by the Republican Guard. Thereafter, President Sadat ostentatiously dismantled the 'power centre', asserting the end of autocratic measures represented by police harassment, mail surveillance and wiretapping

(Waterbury 1983: 349-353).

The power struggle accelerated economic reform. In 1974, the Sadat government issued the October Paper, which outlined the new policy of *infitah*. This term, '*infitah*,' first used in the late 1960s, implies a positive meaning of opening not only to foreign investment but to profit. "It was thus difficult to reject a policy with such a name, the more so as the policy was emphatically praised by the state" (Wahba 1994: 179). Law 43/1974 legalised foreign investment in all fields, some of which had been restricted by the National Charter of 1962, and this law was brought into effect in 1975. At the same time, the government approved various projects such as "free zones, chemical industries, spinning and weaving, mining, banking, housing, tourism, livestock, and others. ... A large assortment of guarantees and privileges was given to the projects, including exemption from nationalisation, confiscation and sequestration; nor were they subject to the legislations and regulations that applied to the public sector, even in areas concerning personnel regulations, representation of workers on boards of directors, or distribution of profits" (Ayubi 1991: 20).<sup>13</sup> Simultaneously, the government enacted Law 86/1974 to protect Egyptian investors. It "allowed Egyptian entrepreneurs who invested their funds in local currency the same privileges as those given to foreign investors. In practice, however, no local projects benefited from this law for a number of years and there were calls for the Egyptian investors to be given the same rights as were accorded to foreign capital" (Ayubi 1991: 21).

It should be noted that the *infitah* was not a blueprint for a free economy but rather an 'investment promotion programme.' An official publication, which was published by the Ministry of Planning in 1977, reveals the thought of the ruling elites during the Sadat government.

It was thought in early 1975 that the crisis of the Egyptian economy was temporary,

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<sup>13</sup> Several shortcomings in Law 43/1974 were pointed out by foreign investors. An important problem was the exchange rate for the repatriation of profits and capitals. "In the original law, the exchange rate was fixed at the original level, i.e. at Piastres 39.36 per US dollar. Another problem related to the foreign exchange accounts of *infitah* companies which had to be kept in banks registered with the Central Bank of Egypt, rather than the offshore branches of international banks which had been set up in Egypt for example." These problems were solved by Law 43/1974, in which "the repatriation of profits and capitals was allowed at the 'highest obtainable price,' and projects were allowed to open accounts in any banks they liked" (Wahba 1994: 190-191).

resulting from insufficient liquidity and a temporary deficit in the balance of payments... From this point of view it was logical that efforts should be concentrated on seeking liquid resources from abroad without changes in domestic economic structure and general policy (MoP 1977: 5).

Economic advisors in the government did not regard the economic difficulties as structural. This attitude explains the fact that they recognised the importance of Arab funds for Egypt's economic recovery. "Such funds were likely to be mobilized more quickly than those from other sources, and were less likely to require institutional and other changes by Egypt" (Ikram 2006: 21).

The government attempted to rationalise the management of public enterprises by excluding employees from their decision-making process. While the government abolished public holding organisations (*muassasat amma*), it created twenty five Higher Sectoral Councils instead. These new councils were responsible for developing a particular sector and supervising their subsidiary companies. At the same time, the government attempted to make the public sector management more efficient by eliminating workers' representation. Law 111/1975 "stipulated that the board of the Higher Sectoral Councils was to consist of the directors of the individual companies, three independent experts, and representation from the Ministries of Finance, Planning and the Economy and Economic Cooperation chaired by a supervising minister" (Wahba 1994: 193). Although the government maintained control of public sector companies through control of appointments to the boards of governing councils, these organisations were supposed to function in an advisory rather than a supervisory capacity and, accordingly, the subsidiary companies obtained a large degree of freedom. Also, this law provided for the creation of a general assembly in each public enterprise. "The general assembly was empowered to dismiss all or part of the board of directors, and vote on mergers and changes in the form of the company. Interestingly, the general assembly, whether in wholly state-owned or mixed ownership companies, was composed of the relevant minister, representatives from the Ministries of Finance and Planning, five members of the Higher Sectoral Council, three experts and four company employees appointed by the board of directors" (Wahba 1994: 193). The government intended to reduce the role of workers' representation in the management of the public sector by making representatives of employees a minority on the boards.

Although the workers' representatives did not have a substantial impact on the management of public enterprises, they were a symbol of 'bottom-up' management in Nasser's Arab socialism (Wahba 1994: 192-194).

The *infitah* did not lead to serious changes in Egypt's economic structure. "What it seems to have done was to establish and expand a parallel market for foreign exchange, reduce exchange restrictions, reform banking laws, and to some extent decentralize the making of economic decisions. More importantly, perhaps, it increased the participation of the private sector in the economy and thus introduced an element of greater competition for the public sector" (Vatikiotis 1991: 429-430). However, the ruling elite did not intend to diminish the role of the public sector in the economy through the *infitah*. Prime Minister Mamduh Salim remarked: "This policy does not deviate from the general philosophy of the system nor from the principles of equal distribution; it does not weaken the public sector nor the importance of comprehensive national planning, nor does it mean chaos, clashes and contradictions" (Ayubi 1991: 21-22).

Therefore, the *infitah* could not overcome the shortcomings in the Egyptian economy created during the Nasser era. According to Ikram (2006: 44-54), there were eight problems in the Egyptian economy after the *infitah*: (1) serious distortions in prices and incentives led to many uneconomic allocations of investment and waste of resources. (2) Exchange rate and trade protection benefited imports rather than exports, which distorted allocations of investment. (3) The regimes of exchange rate and trade were highly fragmented and complex. There were three channels of exchange transaction: the Central Bank, the commercial banks and the 'own exchange' market. The exchange rates changed, depending on the channels and types of transactions. (4) The budget contained several structural weak points. Whereas there was an increase in total government's expenditure as a proportion of GDP, the increase highly depended on fiscal deficit. The budget was furthermore vulnerable to external forces. (5) The economy was sustained by the public sector, including government activities and public enterprises, whose activities were protected by the government from competition. (6) Pressure to enhance the productivity of capital was weak especially in the

public sector. (7) Economic management by the government did not effectively respond to changes in circumstances. In order to control inflation, for example, the government utilised price control through subsidies and price regulations. Fiscal policy was not effectively utilised as a tool for economic stabilisation. (8) Government institutions for economic management were not effective enough to construct the new economic system. Despite the shortcomings, the *infitah* gradually enabled the business elite to increase their economic power, although the public sector was still dominant in the economy.

However, it should be noted that the business class was not independent from the state, unlike the bourgeoisie in Western European countries. Businessmen were dependent on the state and the public sector in Egypt.

Changing patterns of allocation rather than ownership may produce the kind of political economies that will give an exhausted statist regime a new lease of life. Instead of managing economic exchanges directly, such a regime may manage them indirectly, while still continuing in principle to own the means of production. Supporting client groups then becomes less expensive because some of the costs are farmed out to the state oligopolists ... in much the same way as indirect rule was usually less costly to colonial powers than direct rule (Moore 1986: 637).

In the process of privatisation, the government provided benefits to businessmen in return for their support. It erected a personalistic network of patronage along with the state bureaucracy.

The distinction between the public treasury and the ruler's private purse became increasingly blurred as Sadat and his immediate family became principal beneficiaries of the *infitah*. Sadat ... did not openly pursue business interests or acquire assets in his own name; but his wife, siblings, and others ... ensured that the President's family secured a substantial piece of the action (Springborg 1989: 34).

Whereas the government allowed them to benefit from their activities under the auspices of the government, it still maintained political control over these activities through membership of its inner circle. As a result, President Sadat successfully reinforced his power by politically controlling their activities.

Moreover, the *infitah* apparently led to improved prosperity. The growth ratio of national income reached 8% per annum between 1975 and 1985. Simultaneously, per capita income

increased by more than 5%. Although Sadat and his supporters thought of the economic growth as an outcome of the economic reforms, the reality was that productive activities actually stagnated. In major industries such as textiles, for example, only a slight increase in their product was recorded. The Egyptian economy failed to promote the export of manufactured goods. Although exports increased from 12.9% of GDP in 1970 to 16.9% in 1974, they dropped to 11.5% in 1976. This record also depended on petroleum exports. Investments were directed to six sectors (petroleum, construction, electricity, trade and finance, transportation, and storage and communication) and did not necessarily contribute to improving productivity in manufacturing (Cooper 1982: 108-113).

### ***C. The Introduction of Multiparty Elections***

In the Sadat era, the country experienced gradual change in the political structure with the introduction of multiparty, quasi-competitive elections. After issuing the October Paper in 1974, the Sadat government actively attempted to take political liberalisation measures as a means to control opponents within the ASU and its affiliated organisations. After the 1975 ASU election, the National Congress decided to organise platforms (*manabil*) that were to function within the ASU. Although forty platforms were proposed, the National Congress approved three: a 'liberal right' platform, a 'centre' platform and a 'left' platform. Although Sadat had represented the right during the power struggle between Sadat and Sabri, he now pretended to be ideologically neutral to all of the platforms. In fact, he located himself within the centre platform, which in turn supported him. The liberal right platform stressed the necessity to activate investment in the private sector through the promotion of the *infitah*. The left platform was originally divided into two – Marxists and Nasserists, because Nasserists were suspicious about the subordination of Egyptian Marxists to the Soviet Union and apprehensive of their ideology of class struggle. Although the two made a unified platform in 1975, the platform was fragile. What they shared was a concern for social and economic equity, hostility to the bourgeoisie and suspicion of the United States (Waterbury 1983: 364-366).

Although only the three platforms within the ASU could participate in the 1976 parliamentary

election as political organisations (except independent candidates), it was the first openly contested election, at least in appearance, in nearly 25 years. The election resulted in a triumph of the centre platform over other two with a majority of 280 (of 352 seats) in the parliament. The right and left platforms obtained only 12 and 2 seats respectively. After this election Sadat decided to transform the platforms into independent political parties. The pro-government centre was named the National Democratic Party (NDP) in 1978. The right and left platforms were later named the Liberal Party (*Hizb al-Ahrar*) and the National Unionist Progressive Party (*Hizb al-Tagammu*) respectively. Moreover, the Sadat government allowed opponents to found new political parties in January 1977. In response to this decision, the liberal right opposition formed the New Wafd Party and the centre left opposition organised the Socialist Labour Party (Fahmy 2002: 62-63).

During the Sadat era, organised labour remained an important partner for the authoritarian regime. When President Sadat decided to divide the ASU into three political platforms, he exerted pressure on the subsidiary trade unions to affiliate with the centre platform led by himself:

Sadat promised the unionists that they would receive the government's support in future political elections if they affiliated with his plank. Unionists were added to the political bureau of the party and the leadership of Cairo branch .... And where enticement failed, intimidation was attempted (Posusney 1997: 110).

Consequently, the Sadat government obtained the ETUF's support for his political initiative, even if union activists were opposed to it. Confederation leaders co-operated with the government in tightening control over local union activists, especially for elections (Posusney 1997: 108-113).

The introduction of multiparty elections created by-products that would go on to have a significant impact on the Egyptian political structure. Whereas the Nasser government selected candidates before elections, the Sadat government took indirect measures to control the outcome of elections, such as monopolisation of the media and intimidation of opposition candidates. As direct government control was loosened, outcomes of elections were determined according to candidates' resources. Candidates needed wealth to distribute such favours as chickens before elections, or to contribute to the development of their constituency, for example, by renovating local mosques. Although election laws provided that candidates could spend no more than £E 50 on their



campaigns, in fact they needed £E 10,000 to win an election. Candidates also needed government connections to contract infrastructure or get public sector jobs for their clients in their constituency (Hinnebusch 1985: 171).

As the costs of elections increased, elections proved most favourable to wealthy people, such as the business elite. Indeed, parliamentary committees became an arena which reflected their interests in government policy.

From the education committee sprang the proposal for a private university. From the planning and budget committee came ... proposals to sell shares of public sector companies to private investors, opposition to periodic increases in worker salaries on the grounds that they raised consumption and inflation, and calls to restrict the public sector to fields the private sector could not undertake. From the agricultural committee came proposals to change the land tenure law... (Hinnebusch 1985: 176).

Although not all of the proposals were reflected in government policy, many of them were embodied (Hinnebusch 1985: 176-177).

The wave of political liberalisation loosened control over the media. The press was allowed to publish articles freely and the television debates between top policy makers were broadcast. In response to the wave of the political liberalisation in the mass media, parliamentary members expected a role for parliament in political decision-making. In November 1976, “at the Sidna Hussain mosque in Cairo, the Independent MPs met and declared themselves the real opposition in the parliament” (Waterbury 1983: 367).

However, political liberalisation led to a crisis of legitimacy, not to a declining democracy deficit. In the de-Nasserisation campaign that President Sadat launched, he criticised Nasser’s rule for its autocratic features, such as the lack of political freedom, political suppression of his opponents and abuses of human rights (Hinnebusch 1985: 63). However, this political liberalisation did not lead to looser authoritarian controls over the populace. In Egypt political liberalisation was one of Sadat’s strategies to expand political support. As the government loosened control over parliamentary elections, only the business class, which arose as a result of the *infitah*, benefited from this policy. Theoretically speaking, the Sadat government abandoned the organisational

proliferation strategy, which Nasser had adopted, and reinforced patronage relationships with the business class. In contrast, most of the population did not benefit from this political liberalisation because of the authoritarian features of Sadat's rule. Instead, they were harmed by Sadat's economic policy (*infitah*), as explained above. Moreover, although organised labour was still an official partner of the regime, its political influence declined as the business class gained more political power. Thus, the Sadat government needed to find other ways of enhancing its legitimacy and exploited the concept of 'socialism' to further its own ends.

### 2-3-2. The Populist Development of the Social Welfare System in the Sadat Era

The *infitah* led to an increasing income gap between 'haves' and 'have-nots'. The *infitah* provided 'haves' with opportunities to expand their fortunes. Most investors were from the upper class in the pre-revolutionary era or those who had made fortunes in the Gulf countries in the 1950s and 1960s. The monopolised structure of domestic wholesale trade, for example, gave 'haves' opportunities to make further fortunes: "20 large merchants controlled the meat trade, three the seed trade, nine the market in paper, 11 in pipes, 10 in soft drinks and four in automobile parts; in consequence of such monopolies, the price paid by the consumer for locally made goods was typically more than twice than paid by merchants to the producer" (Hinnebusch 1985: 280).

In contrast to 'haves', 'have-nots' suffered from inflation caused by the *infitah* and were faced with a decline in their living standards.

As far as the issue of income distribution was concerned, the Open Door Policy [infitah] increased the opportunities for wealth enhancement for the upper strata while raising prices faster than wage increases. ...

The part of society that was especially harmed by the *infitah*, and which saw its standard of living lowered, was the large segment of the middle class that had neither migrated nor found the means for increasing their income by working in the new *infitah* activities, such as import/export, brokerage, exchanging currencies or renting out furnished apartment, and so on (Amin 2011: 55-56).

**Table 2.3** indicates that income inequality declined from the 1950s until 1972. This was because

the Nasser government implemented a variety of egalitarian measures, such as agrarian reform and the nationalisation of private enterprises. Thereafter, income inequality grew again because of the *infitah*. The share of the wealthiest 10% in income distribution rose slightly in the 1970s. Simultaneously, the share of the middle 30% shrunk slightly. This data indicated that the middle class had gradually been eroded as a result of the *infitah* (El-Issawy 1982: 101-102). Other statistics also indicates that the *infitah* increased the proportion of those who lived below the poverty line. **Table 2.4** indicates that the percentage of families below the poverty line in urban areas declined in the Nasser era, from 30.0% in 1958/59 to 27.8 in 1964/65. However, the tendency reversed in the 1970s and the percentage increased to 34.5% in 1974/75 (Ibrahim 1982: 384-385).

**Table 2.3: The Personal Distribution of Income**

Relative Share of Income Groups	Early 1950s	1972	1975	1976
Lowest 60%	18.0	29.8	34.9	33.7
Middle 30%	38.5	37.0	30.2	31.7
Top 10%	43.5	33.2	34.9	34.6

Source: El-Issawy (1982: 101), Table 4.9.

**Table 2.4: Estimation of Rural and Urban Poverty in Egypt, 1958-1975**

		1958/59	1964/65	1974/75
Poverty line as measures in £E	Rural	93.0	125.0	270.0
	Urban	121.0	163.0	351.0
Percentage of families below the poverty line	Rural	35.0%	26.8%	44.0%
	Urban	30.0%	27.8%	34.5%

Source: Ibrahim (1982: 384), Table 12.2.

In the labour market, mechanisms to absorb new people into the labour force also began to falter in the 1970s. The population in Egypt continued to increase by 2.31% per annum in average for ten years and was estimated to reach 38 million in 1976. This means that approximately 900,000 people be added to the population annually. Although the labour market needed to absorb the increase, the capability to absorb workers was restricted. As will be discussed in **Chapter 5**, the

public sector (both government institutions and public enterprises) already suffered from overstaffing and low productivity, partly because of government guaranteed public sector jobs to graduates of universities and higher-education institutes. The other main area of employment – migration to the Gulf countries – was also problematic. Although remittances from emigrants supplied the Egyptian economy with foreign currency, migration had a negative impact on the labour market. As migration attracted skilled workers, the home economy suffered workforce shortages in these areas. Indeed, wages in the construction sector began to increase in the 1970s (Ikram 1980: 67-69). As the *infitah* revealed the economic gaps between the rich and the poor, the government needed to find another source of the legitimacy to counter the deficit of distributive justice caused by the *infitah*.

It was gradually revealed that some social welfare programmes also became dysfunctional during the *infitah*. The housing programme was one example. Although the Nasser government supplied public housing not only to the vulnerable but also to the middle and upper class, the government effort reached its peak in 1963. Public investment in housing could not keep up with rapid urbanisation. In addition, rent controls in the Nasser era discouraged private investment in housing. These factors led to a housing scarcity in the Sadat era. Whilst 90,000 new family units were formed annually between 1960 and 1975, only 28,000 new housing units were supplied annually during the same period. Consequently, the proportion of citizens without proper accommodation increased, from 21.7% in 1970 to 31.9% in 1977. The *infitah* exacerbated the housing crisis, increasing demands for housing. During the *infitah*, a construction boom increased the cost of real estates and materials (Hinnebusch 1985: 270-271). In such circumstances, government rent controls were fossilised:

Landlord charged large fees for the right to rent (key money), kept flats off the market waiting for rich Arabs or foreigners or took to selling them at exorbitant prices, and conspired to oust tenants from rent controlled buildings so they could sell the land at big profits. In spite of rent control, the rent of a four-room apartment increased six times between 1960 and 1979 (Hinnebusch 1985: 271).

Although the housing programme aimed to supply inexpensive housing to the vulnerable (as well

as people in the middle class), it failed to achieve its goal (Waterbury 1978: 177-198).

In the 1970s, it was revealed that the healthcare programme was also an ineffective social welfare programme for the vulnerable.

Public hospitals fell into abysmal squalor; standards of sanitation were appalling, quality nursing almost absent and equipment old and deteriorating. In the insane asylum of Abbassiyya, a handful of doctors and nurses were responsible for 5000 patients, violence went uncurbed, and lavatories were left out of order (Hinnebusch 1985: 272)

The Sadat government did not intend to upgrade public healthcare especially for the vulnerable. Instead its method was to encourage the private sector to develop high-quality facilities for those who could pay for the service. Consequently, new private clinics opened, importing up-to-date medical equipment. As these clinics targeted the 'haves', the quality of healthcare for the vulnerable worsened during the *infitah*. (Hinnebusch 1985: 272).

In such economic and social conditions, the Sadat government considered populist welfare provision as a means for enhancing the legitimacy and strengthening the sustainability of his regime. John Waterbury (1983) characterises the Sadat era as one of increasing political 'giveaways', which strategically bought incumbency through distributive measures. As he remarks:

Because his incumbency was so closely associated with rapid inflation, he had little choice. He raised the minimum wage four times, beginning in 1972 ... and lastly on May Day 1981. ... [After the October War] he raised the minimum wage to £E 12 (again on May Day), raised the tax exemption floor from annual incomes of £E 250 to £E 300 thereby affecting 1.8 million people, and raised the minimum pension payment from £E 3.6 to £E 6 per month. He followed this at the beginning of Ramadan and on the first anniversary of the October War with a one-month's salary bonus up to a maximum of £E 30 and ended the practice of docking salaries one-day's pay per month (Waterbury 1983: 228-229).

In this process the Sadat government exploited the concept of 'socialism' to justify populist welfare provision, which had the positive feedback effect of reproducing the populist social welfare system, although this socialism differed from what had been dominant in the Nasser era – Arab socialism. When President Sadat announced his intention of forming a new ruling party – the NDP,

he exploited the concept of ‘democratic socialism’ and manifested it as the core ideology of the NDP in May 1977 (Waterbury 1983: 370). In a speech on 15 August 1978, moreover, President Sadat mentioned in *The Times* that the new party – the NDP had “two main goals: enough food for every Egyptian and a house for each family” (Anon. 1978). In other words, his ‘socialism’ was a mere claim that the government would deliver social welfare benefits by increasing populist welfare provision.

Sadat’s speech reflected a fear that social welfare reform would lead to social instability and, in the worst case, trigger demonstrations against the government. The food riots in 1977 were a critical example.<sup>14</sup> Because of a decline in foreign currency reserves, the Sadat government began negotiations with the IMF about a stand-by loan, which meant that the government would be forced to implement a financial stabilisation programme (including reduction of expenditure on food subsidies). In January 1977 the Sadat government announced the lifting of food subsidies, triggering food riots. In response, the Sadat government immediately cancelled subsidy cuts. The food riots forced the Egyptian authoritarian regime to continue providing populist welfare and strengthened path-dependent change in the social welfare system. This reaction indicates that authoritarian leaders might be forced to change their survival strategies, and that mass movements are reactive to their decisions and function as a signal for them, as discussed in **Chapter 1**.

#### ***A. Case (1): Social Insurance and the Sadat Pension***

In the Sadat era the social insurance programme dramatically changed its characteristics, expanding coverage to more vulnerable people. Beneficiaries of the institutional expansion were divided into three groups: (1) employers and the self-employed, (2) Egyptian citizens working abroad and (3) casual workers. This programme provided these three groups with three schemes: old-age, disability and death pensions. The first category was employers and the self-employed. Law 61/1973 applied this scheme to some categories of employers and, furthermore, it began to cover employers and the self-employed through a new law (Law108/1976) in 1976 (MSI 1984:

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<sup>14</sup> The details of the 1977 food riots will be discussed in **Chapter 4**.

435-437). The insurance scheme for this category was compulsory and fully funded. This category accounted for 8.18% of the total contributors in 1977 (Maait, Ismail & Khorasane 2000: 6).

The second category was Egyptians working abroad. Since Egypt is a country exporting human resources, the government concluded social insurance agreements with some other states and needed to supplement them through domestic laws. Law 74/1973 was enacted as a supplement to these agreements and covered Egyptian citizens working abroad under individual labour contracts. Law 50/1978 began to cover all Egyptians working abroad whether employees or individual workers. A character of this programme was that the workers had to pay all of their contributions and employers did not have to contribute (MSI 1984: 437-439).

Benefits are financed by monthly contributions paid by the insured persons at the rate of 22.5 per cent of the income category they select from among the 16 possible categories listed; contributions range from £E 15 to £E 300 per month.

The insured person may request the amendment of the category he had selected to the next higher one (on condition that his age does not exceed 55 years on 1 January following the request for amendment) to a lower category (MSI 1984: 437).

Whereas the first category (employers and the self-employed) was compulsory, workers in this category could choose whether they would enrol or not (Maait, Ismail & Khorasane 2000: 6).

The third category was casual workers and those who had been excluded from social insurance. Law 112/1980 stipulated that the social insurance programme should cover those vulnerable people.

[According to Law 112/1980] beneficiaries include the following categories of workers: temporary workers in agriculture and related activities, fishermen employed on sailing boats, smallholders, home-owners whose annual revenue is less than £E 250, small-scale self-employed persons who do not work in a fixed workplace, domestic servants, self-employed fishermen, self-employed carriers (MSI 1984: 433).

This programme covered old-age, disability and survivor' pensions. The sources were categorised into three. The first source was contributions from insured workers (ranging from £E 0.1 to £E 0.3), which were trivial in the financing. The second source was some indirect sources, such as (1) the resources allocated for this scheme in the budget of the Nasser Social Bank, which was an Egyptian social bank to finance some social security expenditure; and (2) miscellaneous license fees and

taxes. The third category was the direct government support from the exchequer (Maait, Ismail & Khorasanee 2000: 10). It should be noted that, to stabilise the insurance scheme for casual workers as a poverty alleviation programme, the government was responsible for mobilising other resource, unlike the existing social insurance programme.

This institutional expansion to casual workers was named the ‘Comprehensive Social Insurance Scheme (CSIS) and was part of Sadat’s strategy to achieve social justice through social safety nets.<sup>15</sup> It became a turning point for the development of the social insurance programme. Whereas existing social insurance was dependent mainly on contributions from employers and insured workers, this scheme was a non-contributory and supplementary scheme to the fully contributory one (Maait, Ismail & Khorasanee 2000: 6).

Since the 1952 revolution, Egypt has implemented a new widely stratified SIS [Social Insurance System] operated as a fully funded scheme where employees pay their contributions that should be invested and then repaid to them afterwards as pensions. The system has gradually shifted to be partially funded on a PAYG [pay-as-you-go] with a defined benefits scheme (Selwaness 2012: 4).

As a result of this expansion, beneficiaries of the social insurance programme dramatically increased in the 1970s. The number of social insurance contributors increased by 204% in the Sadat era, from 3.6 million in 1973 to 10.94 million in 1983. Payments to beneficiaries more dramatically increased by 447% during the same period (Maait, Ismail & Khorasanee 2000: 4).

At the same time, the Sadat government also expended the social assistance programme to alleviate poverty. Law 30/1977 stipulated that the government should further expand non-contributory, means-tested payments to those who were not covered by the social insurance programme and create the ‘chastity pension’ for unmarried women (Bibars 2001: 83). Moreover, the government introduced a new safety net – the Sadat Pension, which was the other part of Sadat’s strategy (including the CSIS – discussed above). This scheme, established by Law 112/1980, was created as a direct non-contributory scheme to aid the working poor. The pension was provided under the same conditions as the CSIS (Maait, Ismail & Khorasanee 2000: 10).

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<sup>15</sup> The other part was the Sadat Pension (will be explained below).



The Department of Social Assistance delivers this system. Beneficiaries of this system are persons over 65 years, mainly widows (23%), divorced women (20%), disabled (29%), elderly (19%), children of divorced women (15%) and others. ... Sadat Pension beneficiaries are 15.9% of all pension beneficiaries in 1994/95” (Nassar 2002: 193).

The government regarded the Sadat Pension as an important source of legitimacy. This was obvious from the fact that President Sadat put his own name on the Pension (Sabry 2005: 32).

This case study shows that social welfare programmes became more and more populist, and that the boundary between the industrial and residualist programmes blurred during the *infitah*. The social insurance programme was gradually expected to work as a poverty alleviation programme and the government increased financial support to it. Additionally, the social assistance programme reinforced its function as a poverty alleviation programme, expanding its targets and establishing the Sadat Pension.

#### ***B. Case (2): Food Subsidies and Public Employment***

The social welfare system in the Sadat era could be characterised as the dramatic expansion of alternative social welfare programmes, represented by food subsidies and public employment.

**Food Subsidies:** As will be explained in **Chapter 4**, the government expanded the food subsidy programme, changing its features from a tool to help industrialisation to a mechanism to provide cheap foodstuffs to citizens. Although the government began to depend on imported wheat, which imposed a heavy burden on the budget, the Sadat government kept the price of subsidised commodities low and even increased the number of subsidised commodities. Foods, such as beans, lentils, and frozen fish, meat and chicken, in addition to wheat, rice and yellow maize, were added to the list. Although the devaluation of the Egyptian pound between 1977 and 1979 increased the import costs of foodstuffs, the government would not pass on a percentage of the additional cost to the population and covered the difference between the increasing import costs and the subsidised prices itself.

**Public Employment:** As will be discussed in **Chapter 5**, public employment dramatically

expanded in the 1970s. In an environment where the public sector was still dominant in economic activities, high wages in the public sector attracted university graduates to the public employment programme. Workers' salaries in public enterprises were approximately 1.5 times of those in the private sector (Posusney 1997: 175). In the 1970s, the wage gap between the public and private sectors continuously became wider. Consequently, demand for public sector jobs increased and exceeded supply for these jobs in the Sadat era. The government gradually recognised the importance of measures to limit the number of permanent workers in the public sector. Although the government clamped down on wage rises despite inflation and the rising cost of living, it simultaneously increased the number of contract workers. Nonetheless, public employment still attracted young workers as it still provided them various privileges (such as social insurance and labour protection). Consequently, the public sector became progressively more overstaffed in the late 1970s. These two programmes expanded dramatically in the Sadat era, hand in hand with the progress of the *infitah*.

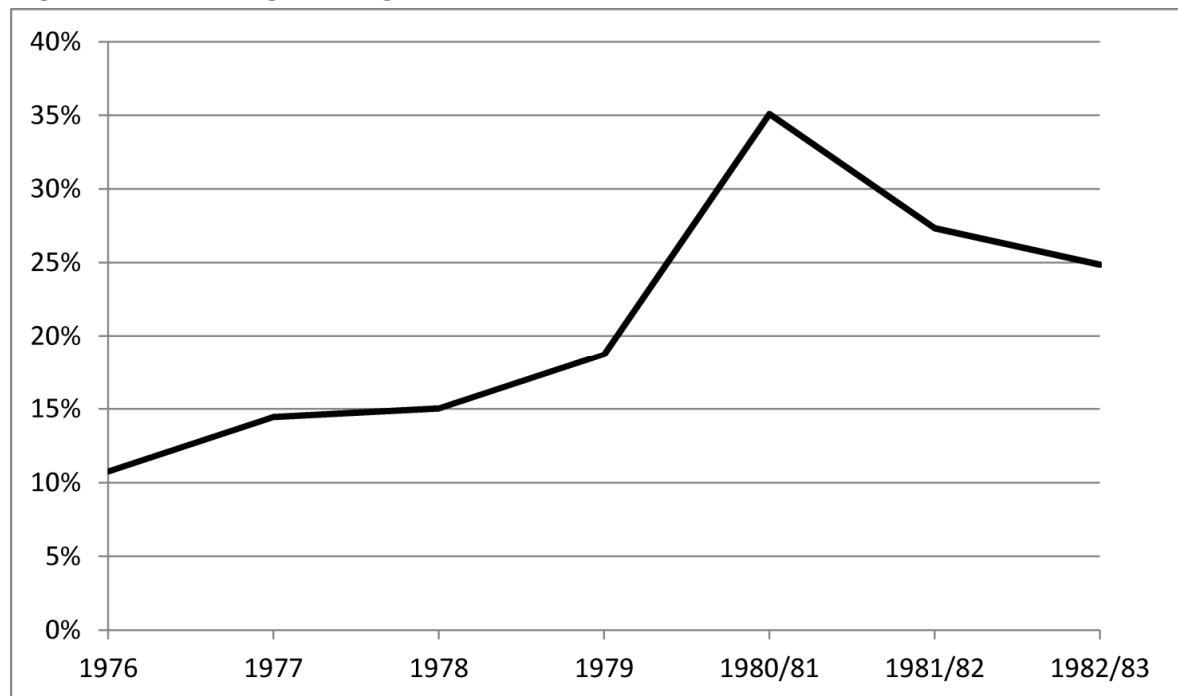
### ***C. Path Dependence and the Reinforcement of Populist Welfare Provision during the Sadat Era***

During the Sadat era the populist features of the social welfare system, which had been established in the Nasser era, were strengthened (path dependence). While the *infitah* led to an increasing income gap between the haves and the have-nots and damaged distributive justice, political liberalisation – the introduction of multiparty elections – did not resolve the distributive justice deficit. Moreover, several existing social welfare programmes fell into dysfunction in the 1970s, which stimulated discontent among Egyptians with the social welfare system. To enhance the legitimacy of his rule, the Sadat government paid more attention to populist welfare provision, which stemmed from Arab socialism. The concept of 'socialism' also added legitimacy to the expansionary welfare provision, even though it was far from Arab socialism.

An increase in external resources enabled the government to implement expansionary measures. The first source was a steep rise in oil prices. The second source was a peace agreement

with Israel. The peace treaty promised the return of the Suez Canal to Egypt, and it enabled the country to use oil resources from the Sinai Peninsula. Also, the peace treaty with Israel attracted tourists from Western countries back to Egypt. The third source was the renewal of foreign aid. The Egyptian government received aid from the United States as well as Arab countries after the peace treaty with Israel (Amin 2011: 53-54). As indicated in **Figure 2.4**, an increase in external resources benefited the national budget, continuously increasing the ratio to the total revenue until FY 1980/81.

**Figure 2.4: Percentage of Exogenous Revenue in Total Revenue**



Source: Ahmed (1984: 13), Table 7.

It should be noted that path dependence during the Sadat era (unlike during the Mubarak era) was still sustained by the economic and political structures (especially the economic structure) that had been established in the Nasser era. In the political structure, organised labour was gradually marginalised and the business class established strong connections with the regime. In contrast, the public sector still played a dominant role in the economic structure, even though the *infitah* promoted the interests of the business elite. The dominance of the public sector enabled the

government to continue spending extensively on expansionary social welfare programmes and justified the use of the concept of ‘socialist’ welfare that had been consolidated in the Nasser era.

## 2-4. A Summary of the Argument

The legacy of the social welfare system in the Nasser era had a significant impact on the evolution of the system thereafter. Although the size of the social welfare system was restricted in the era of the British Protectorate, the 1952 Revolution became a turning point for welfare expansion. Whereas the revolution removed several obstacles by excluding dominant political actors who were not interested in expanding welfare provision (such as the Palace, the British Authority and the landlord class), the following policies – the nationalisation of the Suez Canal in particular – contributed to the consolidation of socialist ideas among the ruling elite. Socialist ideals encouraged the government to expand the dualist social welfare system. The first layer was industrial, core programmes, represented by social insurance. The industrial programmes were pro-labour and their main beneficiary was organised labour. Simultaneously, they were expected to work as a tool to promote Nasser’s industrialisation project. The social insurance programme re-invested its surplus in long-term industrial projects. The second layer was residualist programmes (such as the social assistance programme). Although these programmes were expanded as a result of the introduction of the Arab socialism, they were also limited by financial restraints. It should be noted that, despite the dualist feature, social welfare programmes – whether industrial or residualist programmes – had populist features. Although the Nasser government did not need to depend only on distributive justice via populist welfare provision because of his charisma, this distributive justice had a significant impact on the development of the social welfare system in the Sadat era.

President Sadat needed to be more dependent on populist social welfare than his predecessor for three reasons: (1) the *infitah* promoted a widening of the income gap between the rich and the poor, (2) some existing social welfare programmes dysfunctioned in the 1970s, and (3) political

liberalisation did not resolve distributive justice deficit by enhancing the quality of democracy. Moreover, an increase in external resources enabled the Sadat government to expand the social welfare system. As a result, the Sadat government strengthened the populist features of the social welfare system (path dependence), paying more attention to populist welfare provision that had stemmed from Arab socialism. This process was irreversible. Although the Sadat government attempted to implement subsidy reform in 1977, this was cancelled following the food riots. After the 1977 food riots, the government strengthened the discourse of social justice to avoid social instability. Sadat's new ruling party, the NDP, also addressed the idea of 'democratic socialism', which promised sufficient welfare provision for the population, the needy in particular. The government further expanded the social welfare system and avoided drastic reform for fear of further protests. Such institutional change demonstrates that popular behaviour (the 1977 food riots, in this case) might play an important role in the development of the social welfare system, but was reactive to government choice (the subsidy reform, in this case).

It should be noted that change in the populist social welfare system during the Sadat era was still sustained by the economic and political structures (especially the economic structure) that had been established in the Nasser era. The public sector still played a dominant role in the economic structure, which enabled the government to continue spending heavily on expansionary social welfare and made it reasonable to exploit the concept of 'socialism' when justifying populist welfare provision. The structural characteristics that had been established in the Nasser era were still dominant and reproduced the populist social welfare system in the Sadat era. In contrast, the economic and political structures that sustained the populist social welfare system eroded in the Mubarak era. Therefore, the social welfare system thereafter evolved, following the logic that populist social welfare strengthened the 'social contract' between the government and the governed.

## Chapter 3

### Change in the Political and Economic Structures and Continuity of the Social Welfare System under Mubarak's Rule

On 6 October 1981, President Sadat was assassinated and Vice-President Hosni Mubarak succeeded him. Under Mubarak's rule, the political and economic structures, which sustained the social welfare system that was established in the Nasser era, changed. Since the *infitah* began in the 1970s, the economic structure had gradually changed as a result of economic liberalisation – a shift from etatism to an open economy. In the 1990s the government began a structural adjustment programme (SAP) recommended by the World Bank and the IMF. In the 2000s, moreover, further economic liberalisation was adopted by Prime Minister Nazif and Gamal Mubarak (a son of President Mubarak). However, this economic liberalisation policy did not achieve an open economy and led instead to crony capitalism. This was partly because, as economic structures changed, the political structure altered its features. The Mubarak regime shifted its ruling coalition, to pro-crony capitalist. It co-opted many business elites, who increased their wealth in the *infitah* and economic liberalisation, into the ruling party (the NDP) and the government. Under the ruling coalition with the business class, the Mubarak government pursued a developmental state model, prioritising economic growth over income distribution.

Despite dramatic changes in the political and economic structures, demand for populist social welfare increased. Social deprivation obliged the Mubarak government to continue providing existing populist social welfare. While the fiscal deficit restricted the ability of the government to further expand the system, the discourse of the 'social contract' (and distributive justice, in particular) which had been strengthened in the Sadat era made it difficult for the government to concentrate its resources on poverty alleviation by reforming social welfare programmes. The Mubarak government continued to spend heavily on the populist social welfare system, thereby

neglecting financial misallocation in the system. In that the country experienced this economic and political structural change and eroded the basis of the populist social welfare system that was constructed in the Nasser era, the Mubarak era can be classified as a reactive sequence for the development of the Egyptian social welfare system (see also **Chapter 1**).

This chapter focuses on how the changed political and economic structures influenced the development of the populist social welfare system and, more importantly, how the social welfare system was now driven by its own dynamics regardless of political and economic structural change. To achieve these goals, it first explains how the political and economic structures changed in the 1990s and 2000s. Second, it demonstrates that the social welfare system maintained its populist features regardless of the political and economic structural change in the Mubarak era. Moreover, it claims that the dynamics of the social welfare system eroded its function as a poverty alleviation instrument and resulted in misallocation of resources.

### 3-1. Structural Change in the Political and Economic Systems in the Mubarak Era: Neo-Liberal Economic Reform

In the last years of Sadat's rule, the government depended on borrowing from abroad to expand social welfare. The loans also had a negative impact on the Egyptian economy. "Western banks were seeking outlets to invest surplus oil revenues and began to flood Third World countries with loans at exorbitant interest rates, whether or not these countries actually needed them. Egypt certainly did not need such loans. Taking on loans of such magnitude in an era of prosperity had no justification" (Amin 2011: 54). Nonetheless, by 1975, Egypt needed \$2,083 million for principal repayments and interest on the short-term debt. Whereas this amount accounted for one third of Egypt's total external debt, the total payment on Egypt's external debt was equal to 78% of total exports in the same year (Amin 2011: 54-55). "Total debt outstanding exceeded \$40 billion by June 1987, equivalent to 112 percent of GDP. This last figure is calculated using the official exchange rate; it works out at about 184 percent if calculated at the prevailing free markets rate, which would

have made Egypt the most heavily indebted major debtor country in the world” (Ikram 2006: 56). At the time, the country was not able to pay its foreign debt arrears and needed further reforms to achieve economic recovery.

**Table 3.1: Current Account – Goods and Nonfactor Services FY1982-FY1988 (US\$ billion)**

Fiscal Year	1982	1983	1984	1985	1986	1987	1988
Exports	7.96	7.85	8.48	8.71	7.84	7.27	8.28
Imports	11.66	11.52	13.41	13.68	12.88	10.63	12.62
Gap	-3.70	-3.66	-4.93	-4.97	-5.04	-3.36	-4.34

Source: Richards (1991: 1723), Table 2.

**Table 3.2: Debt-Service Ratio, FY1982-FY 1987 (%)**

Fiscal Year	1982	1983	1984	1985	1986	1987
Ratio	26.2%	26.7%	23.1%	26.9%	36%	42.4%

Source: Richards (1991: 1724), Table 4.

Note: Ratio = debt service / exports of goods and service, including workers’ remittances but excluding oil exports by foreign oil companies.

Moreover, the country experienced a macro-economic crisis caused by the twin gaps between investment and savings, and between imports and exports. The former gap was mainly caused by a decline in public sector savings. As oil revenues declined and public enterprises accumulated losses, public enterprises decreased their savings. As the same time, private savings were restricted by negative real interest rates on Egyptian pound deposits. Given the lack of incentives to place their saving in the domestic banking system, private estates were invested in abroad. The pattern of investment was not solid. Most funds were distributed to infrastructure, not to manufacturing. This pattern led to the relative neglect of the export-led manufacturing sector (less than 20% of the total investment). The latter gap was related to the weakness of the export-led manufacturing sector. As indicated in **Table 3.1**, although the gap between imports and exports narrowed in the late 1980s, the decline was because of declining imports rather than improved export performance. In addition, as export developments in the 1980s were heavily dependent on petroleum, a decline in oil sales –



from US\$ 2.9 billion in 1983 to US\$ 1.36 billion in 1987 – led directly to poor export performance. The twin gaps were exacerbated by the government deficit. Although the Mubarak government was internationally pressurised to cut the deficit, it remained high at around 16% of GDP (see **Table 3.2**). In the shortage of foreign lending, the government budget was sustained by the domestic banking system, which fuelled inflation (Richards 1991: 1722-1724).

Although the Egyptian economy fell into a serious decline, structural reform in the economic system was not implemented until 1991, for the Mubarak government was reluctant to implement drastic economic reforms, deploying several tactics. One tactic was ‘to promise much and to deliver little’. The government declared its intention to implement ‘bold new reforms’ throughout the economy, but the contents were unsatisfactory when compared to tougher policy recommendations from the IMF. It also utilised various tactics to delay drastic reform, such as ‘numbers games’, ‘smoke screens’ and ‘musical ministers’. Government statistical data regarding inflation rates, GDP, and government revenues and spending were distorted or concealed, which forced the IMF to question the credibility of the data supplied by the government (the ‘numbers games’ tactics). To confuse outsiders, the government established several ministerial committees which had overlapping jurisdictions. This tactic also enabled the government to gain time by having different actors state opposing opinions (the ‘smoke screens’ tactic). Although the staff working for the IMF or the World Bank often met with a government negotiation team composed of four or five ministers, the government had the ministers disagree with each other. Moreover, it repeatedly replaced ministers with other ministers on the pretext of ‘important business’ (the ‘musical ministers’ tactics) (Richards 1991: 1728).

The Gulf War in 1991 was a turning point for the economic structure in Egypt, providing the country with a good opportunity to revitalise the economy. It should have been an opportunity to begin the drastic structural reforms recommended by the IMF and the World Bank because these international aid donors promised financial support to the Egyptian government in exchange for support during the Gulf War in 1991.

A Paris Club Agreement in conjunction with 17 other creditor governments provided

50 per cent relief (amounting to \$10 billion) on outstanding commercial debt to be written off over three years as long as the country complied with the IMF agreements, while the US wrote off \$6.7 billion in military debts. At the same time, Arab states wrote off long term debt valued at \$7 billion (Harrigan & El-Said 2009a: 40).

Their debt waiver (amounting to approximately US\$ 24 billion) facilitated the government's attempts to stabilise the macro economy and to reform the economic structure.

Thus, the Mubarak government accepted a SAP, signing a Standby Loan agreement with the IMF (SDR 234 million) and an agreement with the World Bank on a Structural Adjustment Loan (US\$ 300 million) in 1991. These loans promoted stabilisation measures in the short term. The IMF programme focused on four pillars:

1) establishing external and internal balance, 2) pursuing normal anchors to achieve deflation, 3) currency reforms to accelerate exchange stabilisation and 4) structural reforms to remove price distortions. The keystone for establishing the macro fundamentals was fiscal stabilisation while an exchange rate anchor accompanied by strict monetary and credit targets was chosen as the normal anchor rather than the statist approach of wage and price controls (Harrigan & El-Said 2009a: 39).

Simultaneously, these loans encouraged the government to implement structural reforms, shifting from a state-controlled to a liberalised market economy. The range of structural reforms was very wide, including privatisation of public enterprises, removal of state control over private investment, the liberalising of the trade regime, and well-targeted price subsidies (Harrigan & El-Said 2009a: 39-40). In order to carry out the SAP, the government devised the Economic Reform and Structural Adjustment Programme (ERSAP).

The government's effort to stabilise the economy by implementing the ERSAP was praised by the IMF and considered to be a successful case:

The key policy elements were a large fiscal adjustment, use of an exchange rate anchor that [had] endured for over six years, supported by prudent monetary policies, and early moves to liberalize interest and exchange markets. The outcome included the avoidance of an output collapse despite the magnitude of fiscal adjustment; avoidance of stresses on the financial system; reversal of endemic dollarization; financial deepening at the expense of the banking system; and maintenance of external viability despite a lackluster export performance (Subramanian 1997: 1).

Among the short-term stabilisation measures, minimising the fiscal deficit was the most important

element in the economic shift at the macro level because, in general, SAPs restrict the discretion of the implementing governments to make decisions about costly social welfare programmes that are considered inefficient for poverty alleviation. The government successfully reduced the fiscal deficit, from 15% of GDP in 1987/88 to 2% in 1996/97. Whereas 42% of the deficit deduction was a result of the government's efforts to increase revenue, the rest was composed of expenditure cuts. In order to increase tax revenue, the government implemented tax reform, introducing a new sales tax and raising customs and stamp duties. Reform of state-owned enterprises (SOEs) also helped the government to reduce the deficit. Whereas government's subsidies to SOEs were cut off, their managers were forced to operate them on commercial lines without the subsidies (the Public Enterprise Law, Law 203/1991) (Harrigan & El-Said 2009a: 40-42).

In the 2000s, the Mubarak government seemingly stated its intention to further liberalise the economy, with the rise of Gamal Mubarak (a son of President Hosni Mubarak), in the ruling group. As President Mubarak was aging, Gamal Mubarak became an advisor to the President and was expected to succeed him. In February 2000, he was appointed to the governing body of the NDP. In September 2002, furthermore, he was promoted to become the third-ranking official and the chair of the Policies Secretariat in the NDP. "This new secretariat was described by the secretary general of the NDP (Safwat al-Sharif) as the party's throbbing heart and its tool for turning new thoughts into reality and crystallizing a clear political vision on all national issues" (Rutherford 2008: 219). As he did rely not on the military and the intelligence but on the upper business group, he was regarded as an advocate of economic liberalisation. "He imposed a structure within the NDP through which he promoted his trusted elite, channelled ideas and projects and found roles (and government positions) for the favoured capitalists" (Osman 2010: 135). The appointment of Ahmed Nazif to Prime Minister was another sign of the economic structural change. He was appointed Prime Minister in July 2004. The new cabinet included several members who worked such international organisations as the IMF and the World Bank (such as Yousuf Botrus Ghali and Mahmoud Moheildin). These appointments indicated the government planned to liberalise the

economy for further economic growth and restructure public policies related to manufacturing and export-led economic growth (Adly 2013: 95).

Government efforts to liberalise the economy produced two significant outcomes: (1) a shift within the ruling coalition and (2) crony capitalism. The first outcome was a shift within the ruling coalitions to pro-capitalist. Although the Mubarak government and its ruling party – the NDP – still maintained formal pro-labour organisations and ideology – however superficial they are, it changed the main partner, from urban workers and trade unions to capitalists and businessmen. In general, partial political liberalisation favoured businessmen who had benefited from the *infitah* by allowing them to organise their interest groups.

The commercial bourgeoisie were given new rights to organise and lobby, resulting in the establishment of clubs and organisations such as the Egyptian-US Chamber of Commerce, the Egyptian Businessman's Club and the Federation of Egyptian Industries to defend their interests. President Sadat's re-modelled political system provided a number of spaces in which private-sector interests could use their influence to affect major policy decisions, notably through the specialised committees of the Peoples' Assembly and the public role assigned to major business groups like the important Egyptian Businessmen's Association with its three representatives on the board of the National Investment Authority (Ehteshami & Murphy 1996: 761).

These groups aimed to create organisational channels of influence into the government and civil service, so public policies would reflect their preferences. Their political influence was strengthened in the Mubarak era.

As discussed in **Chapter 2**, the introduction of multiparty elections enabled big business players to seek seats in parliament. This change was beneficial both for big business and the Mubarak government. Whereas the businessmen were able to obtain economic benefits by participating in the ruling circle, the government strengthened its ruling structure by co-opting them. The most significant example was Ahmad Ezz, the chairman and managing director of al-Ezz Steel Rebars. His company, established in 1994, was the largest steel producer in the MENA region, controlling approximately 60-70% of the Egyptian domestic steel market. At the same time, he established a close relationship with Gamal Mubarak and worked as the NDP's secretary for

organisational affairs. In the 2005 election, Ezz mobilised various measures to win it:

Ezz was elected, largely on the strength of the votes of the approximately 11,000 workers he employs in his steel mills in Sadat City, a new city on the periphery of Cairo located in Minufiyya [his constituency]. To further secure his election, Ezz reportedly distributed large quantities of fertilizer to farmers in the rural areas of his constituency (Beinin 2009a: 31)

In this election, 12 of 25 constituencies in Cairo City were contested by business elites. In the Mubarak era, the proportion of business elites who were parliamentary members in the Lower House steadily increased, from 12% in 1995 to 17% in 2000 to 22% in 2005 (Beinin 2009a: 31-32).

The multiparty elections enabled the Mubarak government to exploit the privatisation of public enterprises as a resource for the government to use in co-opting the economic elite. As the government had no rules on selling assets from public enterprises at market value, it sold these assets to small and privileged economic elite at low prices (King 2009: 113-124). Moreover, changes in regulations provided the business elite with various opportunities to make money. For example, the private sector began to compete in the telecommunication sector (such as TV channels) and 'build, own, operate, transfer' infrastructure facilities (such as airports, ports and power plants). In addition, the government allowed private companies to make profits through their transactions with public enterprises (Wurzel 2009: 108). These factors cemented strong relationships between the government and the business elite.

Accordingly, the NDP became a vehicle for businessmen to increase their political influence and to further their interests through public policies.

In less than ten years, a mesh was formed between the regime ... and some Egyptian business and finance tycoons. ... The mesh comprised the most important vehicles of the NDP (especially the highly influential policy committee); the key secretariats and committees of parliament (also controlled by the NDP); some of the largest and most important economic sector in the economy; the entire banking sector; some of the most active civic and charity organizations in Egypt; and of course the government itself (Osman 2010: 135).

Gamal Mubarak was in the centre of the network, linking various organisations outside the NDP, such as the Future Generation Foundation, the US-Egypt Business Council, the Social Fund for

Development (SFD) and the ECES (King 2009: 116).

These changes weakened the political influence of organised labour, although it was still an official partner of the authoritarian regime. In the 1990s, the government attempted further control over organised labour through several laws. Law 12/1995 was an example, restricting running for union elections to workers on permanent contracts and excluding workers on fixed-term contracts. The number of workers on fixed-term contracts increased as the government stopped issuing permanent contracts to new government employees (Kienle 1998: 227). As unions and workers are vulnerable in times of crisis, and were potential challengers to the government, this measure aimed to reduce “the likelihood that unions voice genuine opposition or exert pressure during economic restructuring” (Kassem 2002: 64). Another measure to control organised labour was the co-option of union leaders. This measure aimed to prevent unions from reflecting the ‘true’ voice of workers in policy making in the NDP. As economic liberalisation made progress, workers’ living standards worsened and workers were increasingly regarded as challengers to the government policy of economic liberalisation (Kassem 2002: 64-65). Consequently, organised labour altered its role in the government from a partner of the regime to a potential challenger (or obstacle) to government policy.

The second outcome was crony capitalism. This structural change occurred hand in hand with the shift of the ruling coalitions. As Stephen King (2009) discusses, the ruling elites exploited economic policies as tools to maximise economic rents. This strategy strengthened the informal connections between the government and the private sector, big business men in particular, after the *infitah*. The Mubarak government preferred informal networks to institutionalised channels because they were cheaper than institutionalised connections. While the government provided a restricted group of businessmen with privileges or financial support for their business, the privileged businessmen supported the government. This meant an increase in opportunities for big businessmen to seek rents. For small or medium size entrepreneurs, the lack of institutionalised channels to the government meant that they could not obtain useful information on, for example,

exporting and foreign markets from the government (Adly 2013: 92). Big businessmen who had strong connections with the ruling elites were granted privileged access to public bank credit: “In 2002 twelve clients held almost 18 percent of total non-performing loans in the banking sector. ... An estimated 53 percent of total credit extended to the private sector was furnished without sufficient collateral” (Adly 2009: 11). These figures were personally close to the President or his inner circle members in general.

Ahmad Bahgat, a leading businessman and industrialist who held loans in excess of a billion Egyptian pounds in the late 1990s, has been reported to be personally close to the President’s elder son Alaa Mubarak. Abdallah Tayel who was arrested and tried in 1999 together with 19 businessmen for issuing loans worth of L.E. 592 million without sufficient collateral from Misr-Exterior Bank, was the head of the economic committee at the People’s Assembly as well as the Chairman of the Bank’s board (Adly 2009: 12).

In this environment, the government tended to restrict the numbers of individuals who could benefit from patronage in order to maintain its hold on its authoritarian regime. Consequently, the Mubarak government was reluctant to implement radical economic reform because such reform might decrease resources for rent-seeking, which were necessary for the survival of the authoritarian regime.

In Egypt, there were only a small number of independent business elites that were opposed to government corruption. They posed a challenge to authoritarian rule by demanding that the government should implement further political liberalisation and democratic transition. They, supporting the new, rightist Wafd Party in general, were a minority among Egyptian business elites (Hashem & El-Mikawy 2002: 51). Most business elites in the country supported and depended on the government. As Ulrich Wurzel (2009: 111) remarks:

The regime is still powerful enough to destroy the business operations of any entrepreneur who does not conform to what is considered appropriate behaviour. Business people of a particular standing are thus forced to play by rules set by the regime.

Under these conditions, it was rational for the Mubarak government to establish binding connections with business groups.

Consequently, the government was not eager to implement structural economic reforms. In comparison to other countries, Egypt had enough donor support to implement structural reforms, but the regime had no intention of implementing economic liberalisation that might threaten its political base, or upset allied business groups. Indeed, the process of trade reform was not enough for a shift from the statist to a market economy driven by exports of manufactured commodities. Despite tariff reduction, Egyptian trade-weighted nominal average tariff (28%) in the end of the 1990s exceeded the average tariff in other developing countries (21.4%). This prevented domestic manufacturers from improving productivity (Fawzy 1998: 10). The World Bank also concluded as follows:

Egypt remains an inward looking economy, with a lukewarm performance of non-oil manufacturing exports both in terms of growth and composition, as well as not being a major recipient of foreign direct investment (FDI). Other growth sectors, in particular services and construction, while creating new employment, are also not contributing to improving productivity and the economy's competitiveness (World Bank 2001: 1).

Thus, the Mubarak government did not implement the drastic economic reforms that the IMF and the World Bank recommended, and the change in the economic structure was significant.

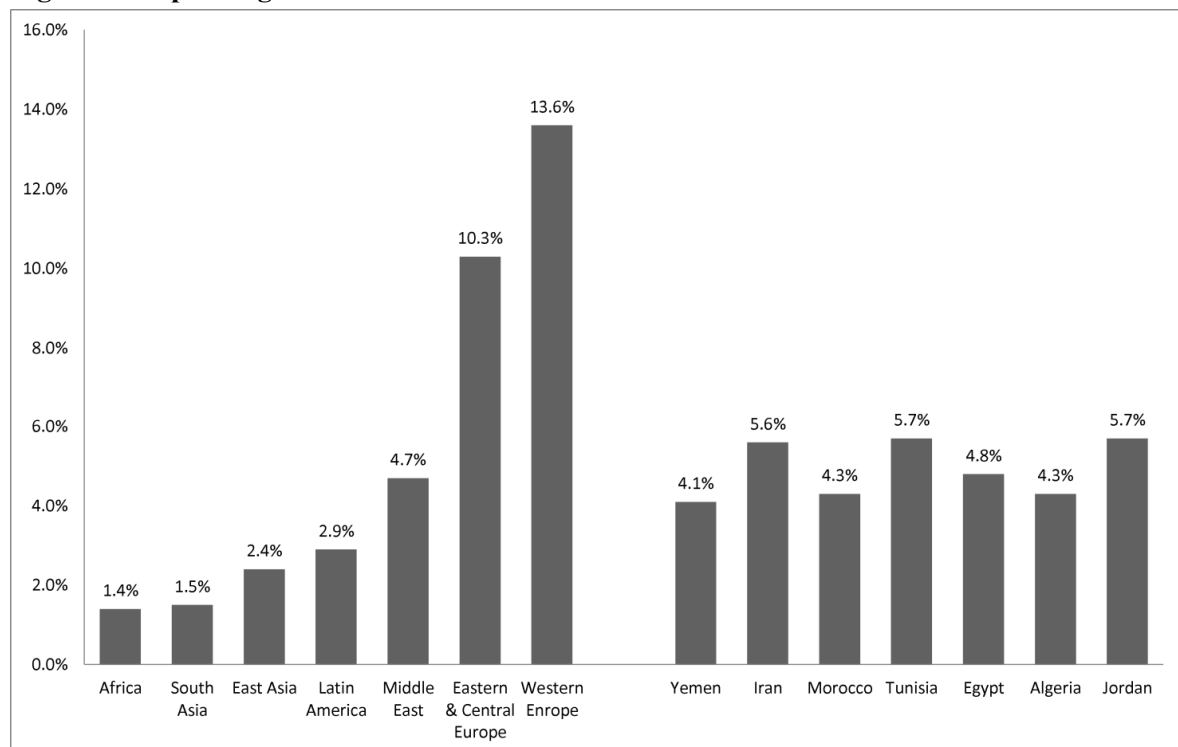
### 3-2. The Social Contract and the Social Welfare System: Reactive Sequence and Path Dependence

The dramatic political and economic changes during the Mubarak era could have led to drastic change to social welfare. As discussed in **Chapter 1**, first, economic liberalisation can have a significant impact on social welfare systems. Economic liberalisation was promoted by the IMF, the World Bank and the United States, who demanded drastic social welfare reform. As there are fewer obstacles in the absence of democracy, political leaders in authoritarian regimes can easily rationalise social welfare systems unlike in democracies (**Hypothesis 1**). This hypothesis assumes that the role of social welfare systems would restrict poverty alleviation. Second, political liberalisation – the introduction of quasi-competitive elections – may influence changes in social welfare systems. Such elections may encourage authoritarian leaders to exploit social welfare



systems as a means to win elections and may subvert institutional goals (**Hypothesis 2**). This hypothesis assumes that the role of social welfare systems would change to a ‘machine’ of authoritarian leaders in quasi-competitive elections. In Egypt a multiparty electoral system was introduced during the Sadat era, which means that, although the Mubarak government could control outcomes of elections by fraud, it had to pay more costs to do that. Moreover, it might enhance its legitimacy if it could win elections without coercive measures. Therefore, it is expected that the Mubarak government still had incentives to mobilise specific social strata with pork-barrel measures (such as exploiting the social welfare system) in order to enable it to win elections, although these elections were ‘quasi’ competitive. Consequently, the social welfare system would drastically change, targeting specific groups (or social strata) with generous welfare provision.

**Figure 3.1: Spending Patterns on Social Protection**



Source: World Bank (2005: 12), Figure 2.1.

However, it should be noted that changes in the social welfare system during the Mubarak era was not dramatic but path-dependent. The social welfare system maintained its populist features that were reinforced in the Sadat era. Indeed, levels of expenditure on social policies during the

Mubarak presidency were still high. Egypt still spent more on social welfare programmes than average developing countries in Latin America and East Asia. The World Bank (2005) demonstrates that average public expenditures on social security and welfare as a percentage of GDP in MENA countries was 4.7 whilst those in Latin America were 2.9% and in East Asia were 2.4%. This trend was applicable to Egypt, where the government spent relatively heavily on social security and welfare (4.8% of GDP) (**Figure 3.1**).

Theoretically speaking, the Mubarak era could be categorised as a period of a ‘reactive sequence’ (see also **Chapter 1**). Although, as explained the political and economic structures that had provided the populist social welfare system with its basis drastically changed, the populist feature of the social welfare system did not change and instead evolved in accordance with its own logic. In this case, the logic of the social contract could explain the relatively large amount of social expenditure during the Mubarak era. According to the World Bank (2004: 3), the social contract is established as a result of “an authoritarian bargain, with citizens trading restrictions on political participation in exchange for economic security and the public provision of social services, welfare, and other benefits”. Indeed, the importance of the social contract was still recognised not merely by ruling elites in Egypt but also by the IMF and the World Bank. The World Bank (2004) asserts that MENA countries, including Egypt, should produce a new social contract through further economic and social reforms. As this report points out, the “economic crisis has eroded – but not eliminated – [the] preferences for redistribution, equity, and economic security that have marked economic and social policy in MENA since independence” (World Bank 2004: 42).

In preserving important elements of the interventionist-redistributive social contract – and in seeking to avoid imposing adjustment costs of policy reforms on the least well off – MENA governments are responding to widely held understandings about the legitimate purposes of the state and the appropriate aims of economic policy. No less than their European, Anglo-American, or Asian counterparts, Arab modes of capitalism reflect the legacies of long-standing social preferences that are not easily transformed (World Bank 2004: 42-43).

The term ‘social contract’ was also included in the country’s Human Development Reports (UNDP & INP 2005, 2008). The old social contract addressed the importance of distributive justice and

was valid during the Mubarak presidency. The population still expected the government to fulfil the social contract through generous welfare provision.

Since the 1990s, the concept of the social contract increased in its political importance because of the political and economic exclusion of the ordinary population who required compensation. Eberhard Kienle explains the logic behind the social contract by revealing the process underpinning political and economic exclusion in the 1990s. He refers to several factors for promoting political and economic exclusion.<sup>1</sup> The first factor was worsening conflict with Islamic opponents, which encouraged the government to restrict political liberties. As some Islamic movements became more and more radicalised, Egypt began to suffer from bombings, assassinations and ambushes, especially in Upper and Central Egypt in the 1990s. These groups aimed carried out assassinations of high rank government personnel and attacks on tourists. As the number of victims increased, the government justified tough restrictions in the name of suppressing armed groups. The Mubarak government furthermore attempted to restrict the activities of the Muslim Brotherhood, arresting many Islamist activists, as the organisation's popularity threatened Mubarak's rule.

In reality, the arrest targeted the unarmed Islamists, whether, like 'Adil Husayn, they belonged to the Labour Party, or whether they belonged to the Muslim Brothers [Brotherhood], whose candidates performed strongly in the elections in various professional syndicates , including those of doctors, chemists, engineers and lawyers from the mid-1980s onwards (Kienle 2001: 137).

The conflict also had a significant impact on freedom of expression. The government strengthened censorship in the 1990s, when an increasing number of publications began to justify the use of violent measures in the name of Islam (Kienle 2001: 132-140).

Second, electoral reforms restricted choice. The Egyptian government switched from party lists to majority vote, as a result of the rulings of the Supreme Constitutional Court in 1990. This reform had a negative impact on the cohesion of parties, including the NDP. To deal with organisational fragmentation, the Mubarak government tried to preserve its majority in parliament through fraudulent practices. This electoral manipulation enabled the Mubarak government to

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<sup>1</sup> In addition to these three factors, the author briefly refers to another two factors: streamlining (or rationalising) the state apparatus and the weakness of liberal values (Kienle 2001: 164-165).

maintain a safe parliamentary majority and consolidated the regime's position (Kienle 2001: 140-144).

Third, the economic situation in the 1990s also resulted in political and economic exclusion. The fruits of economic reforms were unfairly distributed. Whereas government supporters took advantage of opportunities and became economic winners, most citizens were faced with economic difficulties. Indeed, household expenditure surveys indicated that real per capita consumption declined between 1990/91 and 1995/96. The percentage of those living below the poverty line increased in this period, from approximately 40% (both in urban and rural areas) to 45% (in urban areas) and over 50% (in rural areas) (Mitchell 1999: 32). Yet, in contrast to the majority of the population, a small number of Egyptians benefited from the neo-liberal economic reform and crony capitalism, as discussed above.

Reliable guides to the changing share of consumption by the very wealthy do not exist, since surveys fail to record most of their spending. If household expenditure surveys for 1991-92 are extrapolated to the national level, the figures show the population as a whole spent \$15 billion. Yet national accounts give the total expenditure as \$30 billion. In other words, about half the country's consumer spending is missing from the surveys. It is plausible that the bulk of these missing expenditures belong to the wealthiest households (Mitchell 1999: 32).

Economic liberalisation led to an increase in the number of people in poverty. Although the situation improved slightly in the 2000s, economic deprivation obliged the Mubarak government to address the challenge of social justice (Harrigan & El-Said 2009b: 87).

As the economic situation became more severe, the number of protests against economic reforms increased, which led to further restrictions on freedom of expression through, for example, de-liberalisation of private media outlets (Kienle 2001: 144-158). Law 93/1995 was a typical example of the government's clampdown on news questioning economic policies:

The great majority of criminal offences redefined or newly defined under that law, and the tougher punishments it imposed, made easier to the suppression of information which either explicitly or implicitly contained accusations of corruption. One of the key aspects of that law was to widen significantly the definition of crimes such as the propagation of 'false information' and to punish them with greater severity (Kienle 2001: 155).

Furthermore, the economic crisis gave wealthy candidates electoral advantages because they could access private funding, unlike candidates dependent on political parties for limited support. As a result, wealthy candidates had a greater chance of becoming an MP and enjoying the benefits, which led to a further income gap (Kienle 2001: 158-159).

As Eberhard Kienle (2001) remarks, a long-lived authoritarian regime repeatedly tends to exclude those who are less loyal to the regime for its survival:

The appointment of trusted individuals to sensitive and less sensitive posts is necessarily undertaken at the expense of incumbents or candidates who are considered less loyal, sometimes wrongly so. Inevitably the latter are losers in material or symbolic terms. ...

The strategy of exclusion that is supposed to contribute to the stability of the regime readily contributes to its isolation, its contestation, and indeed to its weakening. Conscious of the losses that it causes, the regime seeks to pre-empt all opposition, resistance or vengeance. It therefore further reinforces the measures of exclusion and accompanies them with measures of prevention and repression. In other words, it embarks on a spiralling restriction to the liberties of its victims and of its real or potential adversaries (Kienle 2001: 166).

Although an exclusion strategy was needed to maintain the authoritarian regime, it gradually delegitimised Mubarak's rule at the same time.

In the 2000s, various types of protest against the Mubarak regime were activated, which showed that the regime was being de-legitimised. For example, the *Kefaya* Movement – more formally the Egyptian Movement for Change – between 2003 and 2005 was the first wide-spread political movement for liberty and democracy since the 1952 Revolution, criticising “hereditary rule; political corruption and stagnation; the blurring of the lines between power and wealth; and the regime's cruelty, coercion and disregard for human rights” (Osman 2010: 137). The movement spread widely and attracted various groups in society:

Kefaya was widely diverse, uniting communist, nationalist, and Islamist members in the most significant model of modern political parties in the Arab world. This union was historic; there had never been such a coalescence of Egyptian political groups around any set of issues, much less in direct response to the ruler and his potential successor (Oweidat *et al.* 2008: 11).

Although anti-Mubarak sentiments were widely spread in the 1990s, the *Kefaya* Movement was

historic in that it explicitly claimed democratic transition.

Beside the *Kefaya* Movement, there were increasing strikes, sit-ins, demonstrations and riots throughout the 2000s. The number of protests jumped from 114 in 1998 to 454 in 2008. Labour protest was active especially from 2006 to 2007 (see **Table 3.3**). One strike occurred at one of the biggest public-sector spinning and weaving factories (employing 27,000 workers).

As the massive strikes of 2006/2007 illustrate, the negative outcomes of authoritarian restructuring for large segments of the population can create their own dynamics of growing discontent and opposition. Under certain circumstances, the new dynamics of such opposition, together with the increased room for activists resulting from globalization (increased information, external support, protection through worldwide media coverage, etc.), can lead to a partial challenge to traditional power, albeit without implying a serious threat to the established system as such (Wurzel 2009: 121).

In this way, political and economic exclusion fuelled social protests and delegitimised Mubarak's authoritarian rule.

**Table 3.3: General Indicators of Protests (1998-2008)**

Year	Protests	Strikes	Sit-ins	Demonstrations	Gatherings	Total
1998	42	40	18	14	N/A	114
1999	60	54	32	18	N/A	164
2000	N/A	40	48	47	N/A	135
2001	N/A	19	32	64	N/A	115
2002	N/A	24	26	46	N/A	96
2003	N/A	25	22	6	33	86
2004	N/A	43	90	46	87	266
2005	N/A	46	59	16	81	202
2006	N/A	47	81	25	69	222
2007	19	74	179	49	179	500
2008	29	129	218	78	N/A	454

Source: Adly (2013: 210), Table 10.3.

Under these conditions of economic and political deprivation, maintaining the populist social welfare system was the sole means of legitimising Mubarak's rule and achieving a small measure

of distributive justice. Before the case studies, however, another factor should be considered – fiscal restrictions. The country was faced with a fiscal crisis in the Mubarak era. In 1981, when Hosni Mubarak assumed power, the government's revenue stood at approximately 60% of GDP. "Egypt since the mid-1970s is an instance of an authoritarian regime whose stability had depended on a quasi-rentier state that obtained large influx of money from oil, Suez Canal revenues, and foreign aid" (Soliman 2011: 3). In the late 2000s, however, the revenue decreased to only half of that in the 1980s. There were several reasons why the country experienced a steep decline in the revenues. First, the fiscal crisis in industrialised countries had a negative impact on the amount of foreign aid that the country received. As Egypt was one of the largest recipients of foreign aid among developing countries, the impact on the budget was significant. At the same time, demographic factors further reduced the effects of the foreign aid in that the dependent population drastically increased in the 1980s. Second, rentier incomes from oil and Suez Canal revenues declined at the same time. Third, tax revenue was also influenced by the economic depression. "More than a third of the government's yield from capital gains taxes comes from the General Petroleum Organization, the Suez Canal Company, and the Central Bank. As rentier incomes dropped, so did the taxes paid by those organizations" (Soliman 2011: 42). This is why the Mubarak government was forced to implement austerity measures in 1990s.

Nevertheless, it is obvious that the government feared protests against austerity and reached a compromise with the population. The Mubarak government feared that, like the Sadat government in 1977, its legitimacy would be damaged the demonstrations continued.

The scale of the demonstrations in Cairo was such that [Sadat] government imposed a curfew and ordered armed police and the army to shoot anyone found out of doors without permit. The sounds of explosions continued to interrupt the curfew, however, with demonstrators fighting police after nightfall in two densely populated suburbs. ... The final official death toll (widely considered extremely conservative) was 73. At least 600 people were arrested in Cairo during the demonstrations and many more detained in Alexandria (Seddon 1993: 100).

Although the social contract seemingly encouraged the Mubarak government to adopt populist expansion of the social welfare system (like that in the Sadat era), a decline in revenues seemingly

made such a strategy impossible (Soliman 2011).

Ultimately the Mubarak government prioritised the maintenance of political stability (and regime survival), implementing only minimum reform of the social welfare system. Since the 1990s, increases of the cost-of-living drove workers to demonstrate against the government's economic policy. In the late 2000s, the country experienced a number of mass workers' strikes in both the private and public sectors. In particular, the strike by textile workers of Mahalla al-Kubra was regarded as the most effectively organised labour movement in the country since the Second World War (Bayat 2013). It might have been possible for the Mubarak government to suppress demonstrations and protests against economic reforms by using security forces and police. Such coercive measures, however, damaged its reputation. This was critical for the Mubarak government because it already suffered from declining legitimacy given its failure to ensure economic growth and democracy.

This research refers to two cases to understand changes to social welfare in the Mubarak era: (1) social insurance and (2) food subsidies and public employment. These case studies reveal that, whilst the government spent heavily on social welfare programmes, it was reluctant to implement reforms involving budget cuts.

#### ***A. Case (1): Social Insurance***

In the Mubarak era, the shortcomings of social insurance as a social welfare programme rose to the surface. The first shortcoming was the limited coverage of the programme. Although the social insurance programme had seemingly expanded the number of people it served during the Sadat era, it actually only covered a limited number of the population. First of all, not only employers but workers tended to avoid enrolling because of its high contribution rates (14% of the payroll for employees and 26% for employers). Because of their immediate financial needs, some workers chose not to enrol even if their employers encouraged them to do so. More commonly, employers did not give their employees the option in order to avoid paying contributions. Even if



employers seemingly paid their contributions, the amount paid was deducted from workers' basic wages in some cases (Sieverding & Selwaness 2012: 3). Poor administration worsened this situation. Whereas almost 100% of employees in the government sector and public enterprises were insured, only 62% of employees in the private sector were covered by social insurance. The National Social Insurance Organisation, which was responsible for the programme, could not effectively supervise private employers (Loewe 2000: 15).

The privatisation of public enterprises also had a negative impact on the coverage. The percentage of insured workers to the total workers declined, from 51.6% in 1998 to 41.8% in 2006. The decline occurred in conjunction with the privatisation of public enterprises in the 2000s. As privatisation reduced the number of jobs in the public sector, young people tended to start their jobs in the informal private sector (i.e., jobs without social insurance coverage) (Roushdy & Selwaness 2012: 11-15). This tendency was obvious from the fact that insurance coverage of the youth (32.7%) was lower than that of elder groups, which was 59.2% for the 40-49 year old age group and 58.2% for the 50-59 year old age group (see **Table 3.4**).

These figures could indicate a life-cycle model in which workers start out in the informal sector and then move into formal employment as they gain experience. ... However, in the context of Egypt, existing evidence indicates that mobility out of the informal sector is low, particularly for the low-educated (Sieverding 2012: 10).

As a result, the shortcomings of the social insurance programme resulted in exclusion of the youth from the programme.

**Table 3.4: Percentage of Current Workers Enrolled in Social Insurance, by Age Group, Gender and Residence (2006)**

<i>Age Group</i>	<b>Male</b>	<b>Female</b>	<b>Urban</b>	<b>Rural</b>	<b>Total</b>
<i>25-29</i>	31.8	36.9	45.1	22.8	32.7
<i>30-39</i>	47.2	45.2	59.9	36.2	46.7
<i>40-49</i>	61.5	53.5	73.5	46.5	59.2
<i>50-59</i>	62.5	44.6	77.3	40.8	58.2
<b><i>Total</i></b>	<b>40.6</b>	<b>38.7</b>	<b>56.2</b>	<b>28.4</b>	<b>40.2</b>

Source: Sieverding (2012: 10), Table 1.

The second shortcoming was low benefits. Although the income replacement rates of social insurance benefits in Egypt were higher than those in other middle-income countries, the actual benefits paid out were inadequate for many Egyptian households. This was because pension benefits were not automatically adjusted in accordance with inflation and were determined by government decrees. Whereas benefits increased only 10% per annum in average, inflation peaked at 20% in the 1980s. Moreover, actual contribution rates fell below legal contribution rates:

According to legal provisions, the combined employer and employee contributions make up about 32-33 percent of covered earnings. However, the NSIO's annual reports imply that aggregate contributions represent just 17 percent of taxable wages. There is no explanation for this except that often non-payment of contributions is not severely sanctioned (Loewe 2000: 15).

The programme was particularly unfriendly to the vulnerable, such as the work-disabled and surviving family members. For example, if an earner was injured or died at young age, the contributions accumulated were so low that his family members could not afford to live on only with survivor benefits. This was why households without a male earner tended to fall below the poverty line in the country (Loewe 2000: 15).

The third shortcoming was high dependency ratios. Although the country had a young population structure, the ratio of the programme's beneficiaries to the population was relatively high (38% in 1998) (Maait, Ismail & Khorasanee 2000: 4). The ratio was remarkable when comparing it with those in the MENA region (27%), Latin America (25%) and Asia (11%). The beneficiaries increased because of several factors: improved life expectancy, a decline in the birth rate and increasing employment especially among young people (Helmy 2008: 204). In the 1990s the introduction of early retirement schemes, which aimed to facilitate the privatisation of public enterprises and to ease pressure on the labour market, also contributed to an increase in the beneficiaries. Accordingly, the number of the beneficiaries reached 6.5 million in 1998 (4.16 million in 1983) (Maait, Ismail & Khorasanee 2000: 4). Moreover, the government failed to increase the contributions, as explained above, which meant that there were financial shortfalls.

Despite such shortcomings, which were critical to the programme's sustainability, the

Mubarak government increased expenditure on the programme without drastic reforms. Since 1987 the exchequer financially supported the scheme to pay assured pension benefits (in addition to the existing contributions the government also had to pay). The government's additional payments to the social insurance funds aimed to alleviate the high costs of living and to maintain benefits at the same level as before. Consequently, it steadily increased from approximately £E 8.0 billion in 2000/01 to approximately £E 13 billion in 2004/05 (equivalent to 8.2% of the total public expenditure) (Helmy 2008: 207). The government's inefficient investment strategy also imposed a heavy burden on the exchequer. The social insurance funds had accumulated reserves, which were invested in government debt instruments (such as bonds and Treasury bills) and in the National Investment Bank (NIB). Although the invested reserves were expected to generate a surplus, low or negative actual returns had been recorded since 1975 and eroded the reserves (see **Table 3.5**). Consequently, the failed investments forced the government to spend on *ad hoc* financial support to maintain the level of benefits (Maait & Demarco 2012: 162).

**Table 3.5: Average Annual Rates of Return on Egyptian Pension Fund Assets Compared with Annual Inflation Rates, FY2001/02–FY2010/11**

Fiscal Year	Total value of pension funds' investments (£E billions)	Average rate of return on investments (%)	Nominal inflation rate (CPI) (%)	Real rate of return on investments (%)
2001/02	167.3	9.7	2.7	7.0
2002/03	189.6	9.2	4.2	5.0
2003/04	213.0	8.9	16.5	-7.6
2004/05	239.2	9.0	4.8	4.2
2005/06	264.1	9.0	7.7	1.3
2006/07	270.0	8.3	9.5	-1.2
2007/08	284.7	8.3	18.3	-10.0
2008/09	296.3	8.3	11.8	-3.5
2009/10	308.0	8.1	11.8	-3.7
2010/11	311.0	8.4	11.1	-2.7

Source: Maait & Demarco (2012: 161), Table 5.1.

However, the interdependence between the exchequer and the social insurance funds had a serious impact on the soundness of the social insurance programme. First, fiscal restrictions meant that the exchequer was unable to cover the pension liability in full from the beginning of the 2000s onwards. The liabilities amounted to over £E 35 billion in 2004/05 (Helmy 2008: 208). As a result, the government needed to restrict annual increments to beneficiaries as of 2004/05. This government indebtedness imposed a burden on the social insurance funds:

Funds owed to the pension system by the public treasury generate no investment returns as result of not transferring these funds to the National Investment Bank. Lost returns negatively affect the financial strength of the pension system (Helmy 2008: 226).

Second, the legal restriction (by Law 119/1980) that the investments should be restricted to these government-related funds:

Pension funds represent approximately 70 percent of financial resources available to the National Investment Bank. The Bank lends the public treasury to fund approximately 86 percent of public investments at 12 percent annual rate of return. The public treasury's indebtedness to the National Investment Bank amounted the LE 143.7 billion in 2004/05 (approximately 41 percent of the government's public net domestic debt, which amounted to LE 349.2 billion) (Helmy 2008: 210).

As a result, future generations were expected to bear such the burden of paying for the government indebtedness through the social insurance programme.

### ***B. Case (2): Food Subsidies and Public Employment***

Similarly to the social insurance programme, the government could not ignore the shortcomings of these two programmes for long in the Mubarak era. However, it should be noted that there was a fundamental difference between social insurance and these two programmes. Social insurance could be justified as an important social welfare programme even though it had several shortcomings. In contrast, these two programmes were considered to be inefficient as social welfare programmes. The food subsidy programme was strongly linked to the price control mechanism, which was the legacy of the etatist economic structure. The public employment programme was sustained by the large public sector. Therefore, the Mubarak government was

pressured to reform these programmes by Washington-based donors (such as the US government, the World Bank and the IMF). Despite such pressure, these two programmes survived in the Mubarak era. The government prioritised social stability over drastic reforms. Consequently, the government did not correct its financial mismanagement: Despite the fact that the Mubarak government spent so much on them, these programmes failed to meet demands of the population. Moreover, the fiscal deficit also restricted the government's choice.

**Food Subsidies:** Although the Mubarak government began reform of food subsidies in the 1980s, the reform was implemented in obscure ways. The reform successfully reduced a burden on the exchequer until the 1990s, but contents of the reform were restricted in a way which meant that the government did not change the institutional feature that enabled every citizen to access subsidised bread. This institutional feature led to the drastic expansion of food subsidies in the 2000s. These institutional changes indicate that stable provision of inexpensive food (especially wheat and bread) was an important part of social justice and the social contract between the government and the population. Despite its institutional expansion in the 2000s, the government could not alleviate discontent over the food subsidy programme. Although the fiscal deficit might have restricted the government's choice, the biggest problem was financial misallocation. The Mubarak government tended to expand the programme without drastic reallocation of resources. Ahmad Galal (2003) refers to the efficiency of the subsidy programmes. He states: "there are several studies documenting the benefits, leakages and targeting. Not much attention has been directed however to the economic (rather than budgetary) cost of these subsidies, nor to the alternative policies of meeting the basic needs of the disadvantaged" (Galal 2003: 8). The fiscal restrictions encouraged the financial misallocation to be significant (see **Chapter 4**).

**Public Employment:** As discussed in **Chapter 5**, public sector workers suffered from a decline in their real wages. Although the government promised wage rises (on May Day or before elections), the actual wage raise did not match inflation rates. In addition, a number of university graduates were unemployed because they tended to wait for public sector jobs. The government's

choice eroded support from the new middle class, who had voted for previous governments. In the Mubarak era, public sector workers went on strike to complain about a decline in their real wages and an increase in their living costs. As a result, the Mubarak government lost powerful support from organised labour, especially workers in the lower ranks.

#### ***D. Distributive Justice and Path-Dependent Change in the Social Welfare System***

As indicated in the logic of the ‘social contract’, maintaining populist social welfare was the sole means to legitimise Mubarak’s rule under conditions of political and economic deprivation. However, because of fiscal restrictions, the government was not able to expand the populist welfare system. Although drastic reform of inefficient social welfare programmes might have been the most effective means to achieve distributive justice, the government did not implement such drastic reform and instead maintained inefficient social welfare programmes in order to stabilise the social order. Indeed, the Mubarak government would not abandon several important social welfare programmes that the Nasser government had constructed, although the IMF and the World Bank have repeatedly criticised them for their inefficiency as poverty alleviation programmes. The Egyptian officials “justified the slow implementation of the privatization programme by the need to avoid the negative repercussions its acceleration would have had on employment and salaries” (Kienle 2001: 151). For example, although expenditures on price subsidies to GDP declined in the 1990s (Galal 2003: 3), price subsidy programmes still survived despite repeated criticisms from the IMF and the World Bank. Furthermore, the employment guarantee scheme for university graduates was long-lived even though the programme had a negative impact on the labour market (World Bank 2004: 35).

Were the two hypotheses (discussed in **Chapter 1**) applicable to the Egyptian case? If applicable, how was it different from what the theory expected? **Hypothesis 1** was partially applicable to changes in the Egyptian social welfare system. The example was the establishment of a new poverty alleviation programme – the Social Fund for Development (SFD). The Mubarak

government introduced this programme to ease the negative impacts of the ERSAP on the vulnerable in 1991. As this programme benefited not only the government but the population, the government was willing to introduce this programme to reform the social welfare system. The SFD was established under the auspices of the World Bank and other regional aid institutions as a third social safety net programme, along with the food subsidy and social assistance programmes (El-Mahdi 2011: 97). This financial feature enabled the government to alleviate poverty without making it find new sources for the new programme. In contrast, retrenchment was a difficult task for the Mubarak government. Unlike textbook theory, Egypt's economic liberalisation did not lead towards an open market. It led instead to the development of crony capitalism, in which a small number of business elites forged strong connections with and became enmeshed with the ruling elite. In this context, rulers and their allies generally have incentives to avoid political instability and maintain the status quo. The crony business elites did not expect the government to implement drastic reforms that might trigger popular protests and threaten their patronage connections with the government. Thus, it was rational for the Mubarak government to maintain the existing structure of the social welfare system even though the social welfare system was faced with resource misallocation.

**Hypothesis 2** was applicable to the Egyptian case when focusing on short-term changes to the social welfare system. Existing academic literature asserts that authoritarian leaders exploited several social welfare programmes for electoral purposes: the SFD (El-Meehy 2009), public employment (bonus in particular) and social insurance (especially retirement pensions) (Blaydes 2011). As will be explained in the following chapters, the government promised that it would maintain food prices by controlling them via food subsidies before elections (see **Chapter 4**). In addition, the public employment programme was also important as a means to obtain political support from public sector workers in elections. The Mubarak government promised then wage rises before elections as well as on May Days (see also **Chapter 5**). Multiparty elections were seemingly the main factor of changing the social welfare system during the Mubarak era when

focusing on short-term change.

However, when focusing on long-term change, as discussed above, the Mubarak government expected multiparty elections to be channels to use to strengthen the relationship with the business class, rather than a means to achieve distributive justice. In democracies, competitive elections generally contribute to the consolidation of distributive justice by promoting competition between political parties (Haggard & Kaufman 2008). In contrast, the government had no intention of introducing ‘true’ competitive elections in Egypt’s case. It might be undeniable that elections under authoritarian rule could help social welfare systems to reinforce distributive justice in the long term as well. As anticipated in **Hypothesis 2**, authoritarian governments might be able to intensify income distribution to a specific social group or class (such as the vulnerable) to win elections. In Egypt’s case, however, the populist social welfare system was unable to achieve distributive justice without drastic welfare reform because of fiscal restrictions. The government prioritised regime survival by avoiding political instability and expected the social welfare system to function as an instrument for political stability. It did not sincerely deal with social problems. Therefore, it could not adopt, for example, a strategy of concentrating its resources on a specific social class (such as the vulnerable) and cutting social expenditure previously distributed to other wealthier social groups in order to win elections.

The outcome of path dependence was enduring fiscal misallocation. As Markus Loewe (2000: 9) remarks, the major problem in the social welfare system was “not a lack of financial resources but their inefficient allocation and uneven distribution among different groups of the population”.

Egypt’s social security systems are not equitable, either. Most of the systems discriminate against the poor and benefit the urban upper and middle classes. While by law, every Egyptian is covered by social insurance, in practice only half the population is insured. Moreover, insurance benefits for the rich and the state elite are much more generous than are those for the poor. Similarly, the country’s subsidisation policy benefits the middle class more than it supports the poor. 2.3 percent of GDP is spent on subsidies but less than 0.2 percent on social assistance (Loewe 2000: 9).

The fiscal misallocation had two remarkable outcomes. The first outcome was the erosion of the middle class, despite the fact that the upper and middle class benefited more than the vulnerable.



The *ad hoc* strategy, or the lack of the long-term strategy, damaged the middle class.

The educated, formerly well-to-do members of the middle class (government employees and college students) have been pushed into the ranks of the urban poor in labour, health and housing markets. More importantly, the new labour law has practically eliminated both job security and the state guarantee of employment for graduates in exchange for a (restricted) right to strike (Bayat 2006: 140).

The second outcome was enduring poverty. Most social welfare programmes were inefficient ways of alleviating poverty because they benefited not only the needy but also the middle classes and the upper-middle class in general. The food subsidy programme was the most famous case of such financial misallocation (see **Chapter 4**) (Loewe 2004).

### 3-3. A Summary of the Argument

In the Mubarak era, the country experienced dramatic change in the political and economic structures, which had been the basis of the Egyptian social welfare system since the Nasser era. Although the economic structure changed during a wave of economic liberalisation (from *etatism* to an open economy), the change was different to those that the World Bank and the IMF expected. The Mubarak government embarked on structural adjustment in the 1990s and adopted further economic liberalisation policies in the 2000s under the leadership of Prime Minister Nazif and Gamal Mubarak (a son of President Mubarak). However, economic liberalisation led to crony capitalism. As the economic structure changed, the political structure altered. The Mubarak regime shifted its ruling coalition to pro-crony capitalist. It co-opted the business elites, who increased their wealth during the *infitah* and economic liberalisation, into the ruling party (the NDP) and government. The Mubarak government also pursued a developmental state, prioritising economic growth over income distribution. In contrast to the business elites, organised labour gradually became an obstacle to economic reform, although it was still an official partner of the regime. From the point that the country experienced the economic and political structural change and eroded the basis of the social welfare system that was constructed in the Nasser era, the Mubarak era was

classified as a reactive sequence for the development of the Egyptian social welfare system (see also **Chapter 1**).

However, dramatic change in the political and economic structures led to path-dependent change – the continuation of the populist social welfare system. Social deprivation caused by the changes obliged the Mubarak government to maintain the existing social welfare system. While fiscal deficit made the government unable to further expand the system, the discourse of the social contract (and distributive justice in particular) which was strengthened in the Sadat era made it difficult for the government to concentrate its resources on poverty alleviation and social welfare reforms. The Mubarak government continued to spend heavily on social welfare, neglecting financial misallocation in the system (see **Table 3.6**).

The Egyptian case indicates that the two hypotheses did not take into consideration the institutional legacy – populist welfare provision – to analyse long-term change in the social welfare system. As theoretically expected in **Hypothesis 1**, the Mubarak government established a new safety net – the SFD because its establishment did not have a negative impact on the citizens. The government successfully improved the social safety net in the 1990s. Furthermore, as **Hypothesis 2** expects, quasi-competitive elections encouraged the government to exploit the social welfare system to win elections. The existing literature demonstrates the relationship between elections and an increase in expenditure on social welfare programmes during the Mubarak era, using the large-N approach. Nonetheless, reform of the populist social welfare system was prevented by the logic of the ‘social contract’. Unlike the predictions, the logic of the ‘social contract’ rejected the government’s efforts to rationalise the social welfare system even though the economy was liberalised. In Egypt’s case, moreover, quasi-competitive elections did not function as a means to achieve distributive justice in the long term. The populist social welfare system was unable to achieve distributive justice without drastic welfare reform because of fiscal restrictions. Nonetheless, the Mubarak government did not sincerely deal with social problems, which social welfare programmes should resolve, by reforming the system and concentrating its resources on

poverty alleviation because drastic reform might trigger social unrest. It prioritised regime survival by avoiding political instability to achieving distributive justice through social welfare reform. This choice eroded a function of the social welfare system as a poverty alleviation instrument and resulted in misallocation of resources.

**Table 3.6 Changes of the Political and Economic Structures and Features of the Social Welfare System in Egypt**

	Features of the Political Structure	Features of the Economic Structure	Features of the Social Welfare System
The British Protectorate	A triangular power struggle between the British authority, the King & the landlords	An initial stage of industrialisation	No incentive to expand the system
The Nasser Presidency (Critical Junctures)	<p>&lt; <b><u>Permissive conditions</u></b> &gt;</p> <p>- The 1952 Revolution:</p> <p>(1) The exclusion of the British authority &amp; the king from the political arena</p> <p>(2) The necessity to eliminate the political power of the landlord class</p> <p>&lt; <b><u>Productive conditions</u></b> &gt;</p> <p>- The introduction of Arab socialism</p> <p>➔ A coalition with organised labour (the <b>organisational proliferation strategy</b>)</p>	<p>➔ Dependence on the private sector (the state's passive role in industrialisation)</p> <p>➔ The state's pivotal role in the economic production (the large size of the public sector)</p>	<p>The <b>dualist social welfare system</b> (for industrialisation + distributive justice)</p> <p>(1) The industrial programmes (e.g., social insurance, food subsidies and public employment)</p> <p>(2) The residualist programmes (e.g., social assistance and healthcare)</p>

<p>The Sadat Presidency (Structural Reproduction)</p>	<p>Partial political liberalisation (the introduction of quasi-competitive elections)  → Co-option of business elites to the regime and their participation in the decision-making process</p>	<p>Partial economic liberalisation (the <i>infitah</i>) – promoting investment in the private sector  → The necessity to compensate the losers of the <i>infitah</i></p>	<p>The <b>expanding social welfare system</b>  → The Sadat government exploited the ideology of ‘socialism’ to legitimise the expansion (the <b>positive feedback effect</b>).  → Its primary purpose shifted (from industrialisation to income distribution)</p>
<p>The Mubarak Presidency (Reactive Sequence)</p>	<p>(1) A failure to distribute benefits of economic growth to the population  (2) De-liberalisation (continuing quasi-competitive elections) &amp; a rise of Islamists  → The necessity to mobilise the people in elections by distributing resources to them through social welfare programmes  <b>(Hypothesis 2):</b>  <u>This hypothesis was applicable only in the short term.</u></p>	<p>Structural adjustment (ERSAP) &amp; further economic liberalisation under the Nazif administration  → The necessity to implement drastic reform to benefit business groups &amp; to appropriate the resources to investment – minimalizing the social welfare system (<b>Hypothesis 1</b>):  <u>This hypothesis was partly applied, but the retrenchment was prevented by the logic of the ‘social contract’</u></p>	<p><b>The lack of a long-term strategy:</b> maintaining the populist social welfare system despite a lack of sufficient resources to avoid political instability  → Neglecting misallocation of resources</p>

Source: Author

## Chapter 4

### Case Study (1) – The Food Subsidy Programme

This chapter analyses how the role of the social welfare system changed by focusing on a specific social welfare programme – the food subsidy programme. The food subsidy programme principally aims to stabilise food prices, especially those of basic foodstuffs. The Egyptian government imports and purchases a large amount of foodstuffs. Although food prices in international markets are unstable, the government does its best to control domestic prices by absorbing the gaps between their purchase and retail prices. Subsidised items are often changed, depending on their prices in the international market. Although the government spends mainly on subsidises for three strategic commodities – wheat (and *baladi* bread), sugar and cooking oil, it often subsidises other foods, such as lentils, broad beans and rice (Al-Jibali 2008: 11). Although the original goal of the food subsidy programme was to stabilise food prices, the food subsidy programme is also expected to work as a poverty alleviation programme because social welfare programmes (such as social insurance) are restricted and ineffective in alleviating social risks of the people (Noureldeen 2012). The food subsidy programme has thus changed its role since its establishment in the Nasser era.

In order to analyse the institutional change, this chapter focuses first on the establishment of the food subsidy programme in the Nasser era. As briefly discussed in **Chapter 2**, the food subsidy programme was one of the industrial programmes in the dualist social welfare system in the Nasser era. Its goal in the Nasser era was not merely to achieve income distribution, but also to contribute to industrialisation. Although this programme had been established to control food prices in the inter-war period,<sup>1</sup> it was converted to a mechanism to redistribute income to urban workers by

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<sup>1</sup> In a period 1919-1920, the government sold large quantities of imported wheat and flour at low prices to deal with inflation in basic food prices (Scobie 1981: 20). The similar measure was introduced during World War II. To deal with scarcity during the war, a food rationing system was applied to sugar, tea and non-food, which were supplied at relatively low prices in 1941

providing them with inexpensive foodstuffs in the Nasser era. At the time, it did not impose a heavy burden on the exchequer because it was sustained by indirect subsidies, or wealth transfer from the agricultural sector to the industrial sector. However, this condition changed with the introduction of the *infitah*.

Second, this chapter explains how the food subsidy programme changed its roles in the Sadat era, weakening the features of industrial programmes. The food subsidy programme in the Sadat era was characterised by its dramatic expansion. At the time, the social welfare system paid more attention to income distribution because the *infitah* widened the income gap between the ‘haves’ and the ‘have-nots’. The food subsidy programme was expected to function as a populist compensation mechanism, increasing the number of subsidised items and maintaining subsidised food prices at low levels. The food riots in 1977 reinforced his commitment to the food subsidy programme. After the food riots, the Sadat government regarded the food subsidy programme as a means to achieve distributive justice.

Third, this chapter focuses on how the Mubarak government treated the food subsidy programme. In the 1990s the government struggled to cut subsidies because it had agreed to implement structural economic reforms proposed by the IMF. Structural adjustment aimed to rationalise the food subsidy programme by converting it to a poverty alleviation programme and restricting its beneficiaries to the vulnerable. However, the failure to generate equitable wealth growth obliged the government to depend heavily on distributional justice achieved through social welfare, including food subsidies. Consequently, the government avoided implementing explicit reforms in order to stave off political grievances and instability (such as the 1977 food riots) and failed to rationalise the programme, although it succeeded in reducing expenditure on the programme. In contrast to the 1990s, the food subsidy programme in the 2000s was characterised by its expansion, which was caused by government reliance on distributional functions for political legitimacy. Food price hikes encouraged citizens to purchase subsidised foodstuffs and increased

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(Ali & Adams 1996: 1778).

expenditure on food subsidies. The dramatic increase in expenditure was caused by the programme's feature that every citizen could purchase subsidised (*baladi*) bread. At the same time, the Mubarak government increased the number and range of subsidised items to avoid grievances about food prices triggering anti-government movements. As a result, the change in the food subsidy programme was restricted by institutional path dependency inherited from Nasser's original institutional political economy, which ultimately sacrificed structural economic reform for regime survival.

#### 4-1. The Formation of the Food Subsidy Programme in the Nasser Era

The 1952 Revolution was a critical juncture for the development of the food subsidy programme in Egypt. As discussed in **Chapter 2**, the industrial programmes, including the food subsidy programme, were designed to boost Nasser's ambitious strategy to promote industrialisation. To comprehend the dynamics of the food subsidy programme in the Nasser era, it is firstly necessary to understand the role of agrarian reform because this reform strongly related to the food subsidy programme. Whereas agrarian reform gave the state several tools with which to intervene in the agricultural sector, these tools helped the state transfer its wealth to the industrial sector, which led to capital accumulation in the public sector. Agrarian reform had three goals: (1) dismantling the old landlord class that had supported the monarchy, (2) encouraging landowners to invest in industry and (3) directly intervening in the agriculture sector.

The first goal was to dismantle the landlord class that had supported the monarchy. The Agrarian Land Reform Law in 1952 stated that the amount of land owned by one person should be limited to 200 feddans<sup>2</sup> although there were several exceptions.<sup>3</sup> The government attempted to exclude Greek moneylenders, who had played a major role in rural credit, by replacing them with co-operatives, with the assistance of the government-owned agricultural bank (Sadowski 1991: 59).

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<sup>2</sup> Feddan is a unit of area used in Egypt. One feddan is equal to 0.42 hectares.

<sup>3</sup> As for the exceptions, see Margold (1957: 12).



The second goal was to support the landlord class to invest the money, which was paid to them as compensation for the confiscation of their land, in industry (Warriner 1962: 41). This goal resulted in failure because the land lord class and the private sector were reluctant to invest in ambitious industrialisation projects, as explained in **Chapter 2**. The third goal was that the state should obtain tools to intervene in the agricultural sector. Agrarian reform enabled the revolutionary government to control the production, marketing and distribution of food products. The revolutionary government established agricultural co-operatives that all peasants had to join and were expected to work in as an alternative to working for the previous landowners. These co-operatives were responsible for a compulsory system of crop rotation,<sup>4</sup> agricultural credit, input subsidies and the marketing of products. Instead of the previous landlord class, they had three instruments to control their members, who had been peasants in the pre-revolutionary era: (1) appointing agricultural engineers as supervisors to elected co-operative councils; (2) co-operatives' monopoly over the supply of key inputs (such as chemical fertilisers, insecticides and seeds); and (3) the co-operatives exercised control over the marketing of the most important crops and were also the instrument for enforcing the direct procurement of agricultural produce (Radwan & Lee 1985: 9-10). Whereas agrarian reform provided the state with a tool to intervene directly in the agricultural sector, it helped the state construct a mechanism to transfer wealth in the agricultural sector to the industry sector along with Nasser's industrialisation project.

The mechanism of transferring wealth from the agricultural to the industrial sectors was the compulsory delivery scheme, which functioned as *de facto* food subsidies by providing inexpensive foods to consumers. After this scheme was introduced in 1955,<sup>5</sup> expenditure on wheat subsidies continued to decrease until the mid-1960s, although it reached £E13 million in 1951/52 (Alderman,

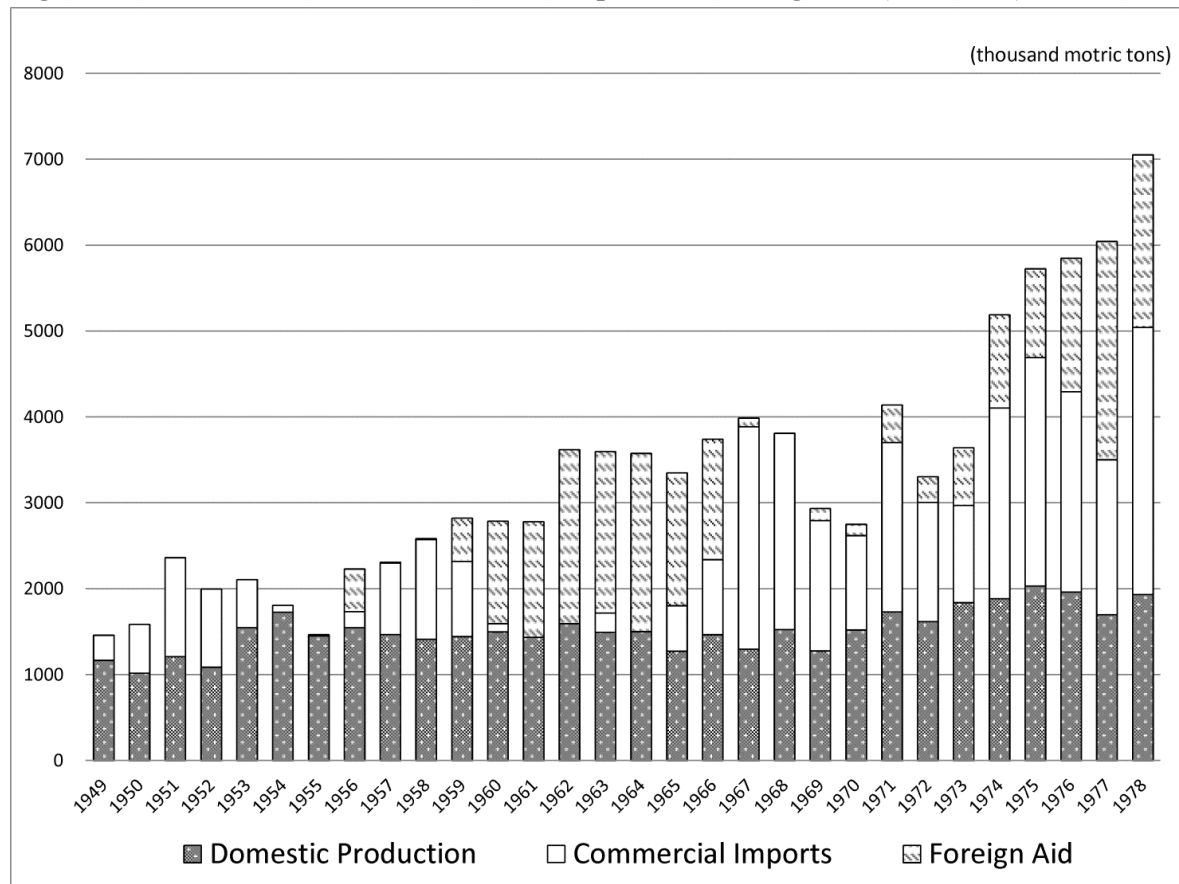
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<sup>4</sup> "The land-reform estates are divided into large blocks, and each block is further divided into three parts. The peasant who acquired land in a certain block was given to a plot I each unit. Under the compulsory system of crop rotation, each part must be sown with a single crop and the same crop cannot be cultivated in the same part for two years in succession" (Gadalla 1962: 57).

<sup>5</sup> According to Kherallah *et al.* (2000: 3), "from 1976 to 1984, compulsory delivery was replaced by an optional delivery program, whereby farmers could voluntarily sell their wheat to the government at a fixed procurement price. In 1985, however, compulsory delivery was reinstated and maintained until the implementation of the Agricultural Reform Program in 1987".

von Braun & Sakr 1982: 13). Although this scheme aimed to establish control over cotton, which was one of the most important exports for the Egyptian economy, it was partly applied to wheat crops and forced farmers to sell a quota of wheat at a fixed price. The fixed price was lower than that found in international markets (Kherallah *et al.* 2000: 3). This scheme covered not only wheat but certain portions of other food staples (e.g., rice, beans, lentils, sesame, and groundnuts) (von Braun & de Haen 1983: 23). Its beneficiaries were concentrated on urban areas because it was difficult to access subsidised food in rural areas. According to Alderman, von Braun & Sakr (1982: 54-55), the government began to expand the subsidy system to rural areas in the 1980s and almost half of the villages they sampled did not have bakeries. In small villages, there were no shops selling subsidised (and rationed) commodities. Therefore, food subsidies were mainly distributed to and benefited urban workers in the Nasser era.

**Figure 4.1: Wheat Production, Commercial Imports and Foreign Aid (1949-1978)**

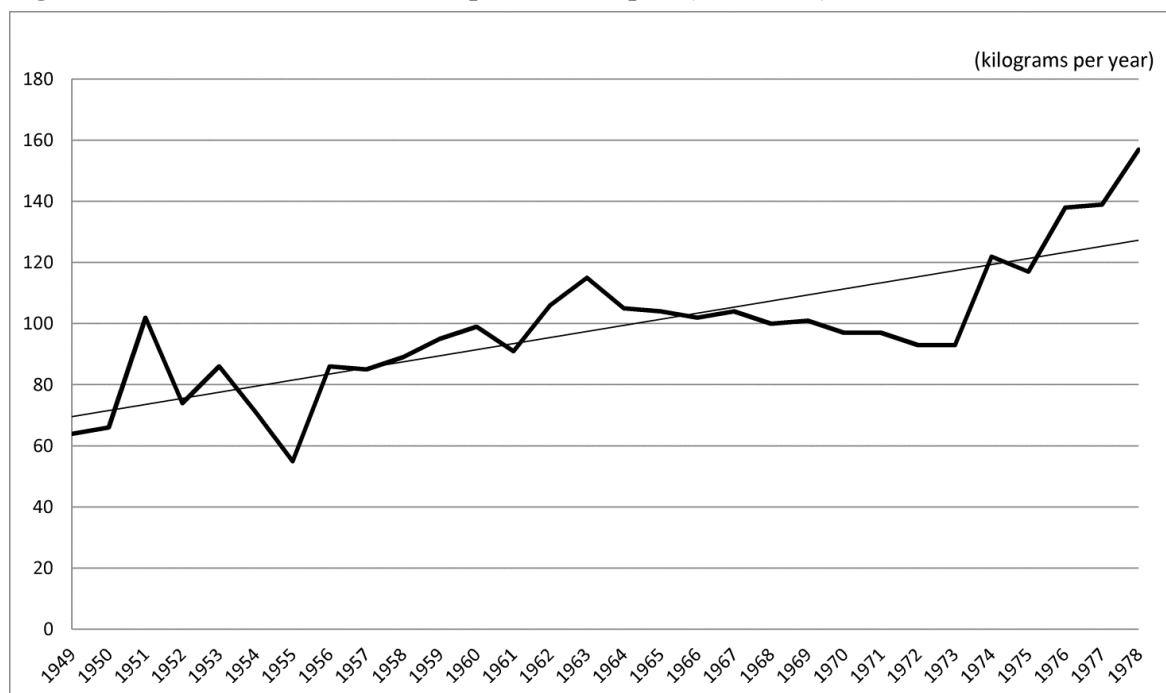


Source: Scobie (1981: 69-70), Table 14.

With the expansion of the public sector, the food subsidy programme became more important for Nasser's industrialisation project. His policy was named the 'low-wage, cheap-food' policy. Whereas this programme provided inexpensive food stuffs to urban workers through the compulsory delivery scheme, this mechanism helped public enterprises, most of which were nationalised after the nationalisation of the Suez Canal, to accumulate capital by keeping wages of their employees low in return for inexpensive food stuffs (Rowntree 1993: 423). In 1961, the government nationalised all foreign trade and monopolised wheat and flour imports (Scobie 1981: 23). Although the amount of wheat imports increased in the 1960s and exceeded that of domestic production in 1962, expenditure on food subsidies were restricted because of foreign aid, especially from the United States (**Figure 4.1**).

Although the government still utilised indirect food subsidies through the compulsory delivery, it gradually spent more on direct food subsidies in the mid-1960s. On the demand side, there were two factors. One was demographic change in the country. According to official statistics, the population in Egypt grew drastically, from less than 20 million in 1947 to more than 30 million in 1966. Along with the increase in the total population, the percentage of the urban population relative to the total population increased, from 33.5% in 1947 to 40.0% in 1966. The population in urban areas doubled in twenty years (CAPMAS 2006: 33-34). The other factor was an increase in wheat consumption per capita. As indicated in **Figure 4.2**, whereas each person annually consumed 64 kilograms of wheat in 1949, the amount almost doubled in 1963 (115 kilograms per year). On the supply side, the government had to depend on commercial wheat imports, which increased the amount of international payments by the government. Except for a few years after the 1952 Revolution, domestic wheat consumption was mainly covered by domestic production and foreign aid (**Figure 4.1**). However, in 1967, food aid from the US was suspended because of the Arab-Israeli War (the Six-Day War). The government therefore had to import wheat to cover domestic demand (Ahmed *et al.* 2001: 5-6). **Figure 4.1** indicates that commercial imports of wheat drastically increased in 1967 when Egypt received only 1,000 tons of foreign aid.

**Figure 4.2: Domestic Wheat Consumption Per Capita (1949-1978)**



Source: Scobie (1981: 69-70), Table 14.

It should however be noted that the burden of food subsidies on the exchequer was still restricted in the Nasser era. Whereas the government began to issue ration cards based on civil records to restrict consumption of several commodities (such as sugar, tea and fuel), it did not always subsidise these commodities. Moreover, it gradually regarded the agricultural sector as a mere source of revenue, as the country was faced with an economic and fiscal crisis in the mid-1960s. Although agriculture production (especially cotton crops) had been one of the most important tax bases, the land owners had endeavoured to maintain the relatively low rate of agricultural taxes. This situation was said to be unfair by industrialists, who asserted that the agricultural sector should shoulder more of the burden of taxes. Responding to the industrialists' claims, the government began to impose a heavy tax burden on agriculture (Sadowski 1991: 65-66).

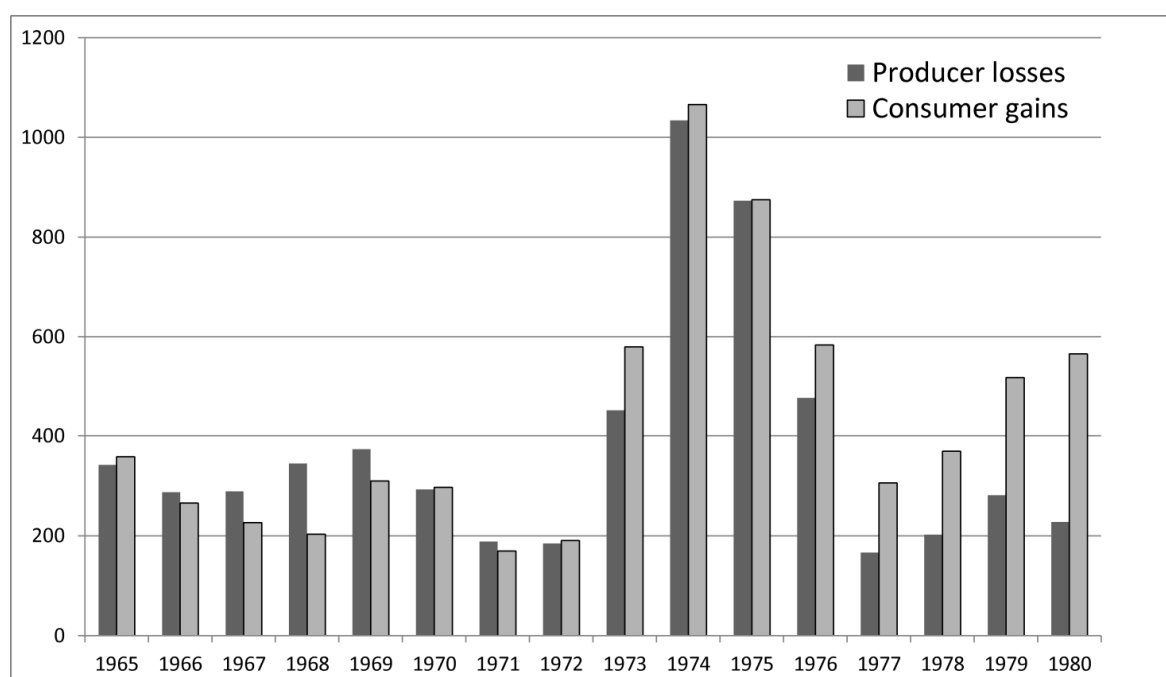
The Egyptian state began to do what agricultural marketing boards in other African countries had been doing for generations: it paid peasants less for their crops than the government earned by reselling their produce in local or international markets. To

prevent peasants from simply switching to other, untaxed, crops, the government required that all cooperative members plant certain volumes of taxable crops. ...

In 1965 this system of compulsory deliveries was extended to all major cereals, and in 1966 to rice. Soon corn, lentils, onions, potatoes, and several smaller crops were subjected to the same regime (Sadowski 1991: 66).

**Figure 4.3** confirms this tendency. The losses incurred by agricultural producers exceeded consumer gains before the 1970s. This data indicates that, although investment in the agricultural sector declined, wealth in the agricultural sector was utilised to stabilise food prices as indirect subsidies. This trend continued until 1974, when the Sadat government experienced a steep rise in expenditure on food subsidies (Alderman, von Braun & Sakr 1982: 13).

**Figure 4.3: Producer Losses & Consumer Gains from Price Policies & Food Subsidies on Wheat, Rice and Maize (1965-1980) (£E million)**



Sources: von Braun & de Haen (1983: 52-53), Table 13 & 14.

In summary, the food subsidy programme functioned as one of the industrial programmes in the social welfare system in the Nasser era. By supplying inexpensive foodstuffs to urban workers, it contributed to capital accumulation of public enterprises. The resource was mobilised by the compulsory delivery scheme, in which wealth in the agricultural sector was transferred to the

industrial sector as indirect subsidies to foodstuffs for urban workers. At the time, the government did not necessarily consider that the food subsidy programme was an important mechanism for income distribution. Indeed, the government did not always subsidise foodstuffs until the mid-1970s, as discussed above.

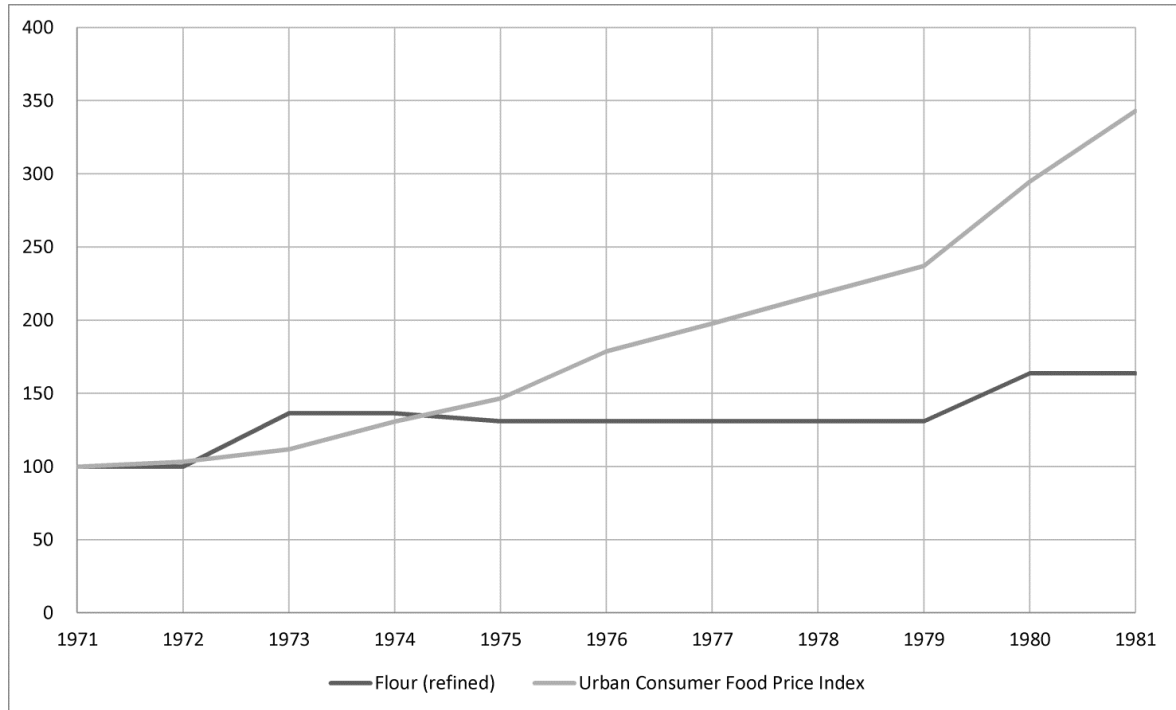
#### 4-2. The Dramatic Expansion in the Sadat Era: The *Infitah* and the Positive Feedback Effect

As explained in **Chapter 2**, President Sadat introduced the *infitah* for economic growth, but it created ‘losers’. Whilst real wages only doubled in the twenty years (1970s and 80s) during the *infitah*, the cost of living index increased more than 2.5 times at the same time (Hansen & Radwan 1982: 108-111). The Sadat government was forced to take measures to relieve the losers, alleviating citizens’ complaints. The food subsidy programme was a suitable tool to do so for two reasons. First, the government did not have an efficient bureaucratic organisation to grasp the income level of each citizen, which is a basis not merely to impose taxes on the citizens, but also to provide them with social security if necessary. Second, it already had experience in controlling food prices through food subsidies and the ration card system. Thus, the government expanded the food subsidy programme, changing its features from a tool to help industrialisation to a mechanism to provide cheap foodstuffs to citizens.

Increasing dependence on imported wheat had a significant impact on the food subsidy programme (see **Figure 4.1**). International wheat prices rose from US\$60 per ton to \$250 in 1973. Although the amount of imported wheat and flour rose only by 8% and 30% respectively in one year (from 1973 to 1974), subsidy costs for these products increased by 174% (Alderman, von Braun & Sakr 1982: 13). Furthermore, domestic wheat prices also increased in the mid-1970s. Although procurement prices were almost equal to import prices (if the import prices were converted at official exchange rates), this situation changed in 1975. Whereas import prices declined at the time, procurement prices continued to increase because of inflation. The

government therefore abolished a compulsory delivery scheme and introduced a new voluntary delivery scheme,<sup>6</sup> in which farmers could sell their products at a fixed price. Consequently, the food subsidy programme chose imported wheat rather than domestic production (Kherallah *et al.* 2000: 23; von Braun & de Haen 1983: 4).

**Figure 4.4: Changes in Urban Consumer Food Price Index and Subsidised Flour (1971 = 100)**



Source: Calculated by Author, based on Alderman, von Braun & Sakr (1982: 20), Table 5.

Despite such a difficult situation, the Sadat government kept prices of subsidised commodities cheap. Whereas the urban consumer food price index more than tripled in ten years (1971-1981) in Egypt, the price of subsidised flour remained low, from 5.5 piastres per kilogram in 1971 to 9.0 piastres in 1981 (see **Figure 4.4**). Moreover, it increased the number of subsidised commodities and began to subsidise additional foods (such as beans, lentils, and frozen fish, meat and chicken) in addition to wheat, rice and yellow maize. At its peak, this programme covered 18 food items (Ahmed *et al.* 2001: 6). Although the devaluation of the Egyptian pound between 1977 and 1979

<sup>6</sup> The compulsory delivery scheme was reintroduced in 1985 and maintained until 1987, when the government began to implement the Agricultural Reform Programme (Kherallah *et al.* 2000: 4).

increased the import costs of foodstuffs, the government would not pass on a portion of the cost increase to the population and covered the difference between the increasing import costs and the subsidised prices. Thus, expenditure on the food subsidy programme continued to grow. Before the devaluation, the government had attained some benefits through this programme because the government monopolised the transaction. After the devaluation, however, it sold most of the imported commodities at great expense (Alderman, von Braun & Sakr 1982: 15-16).

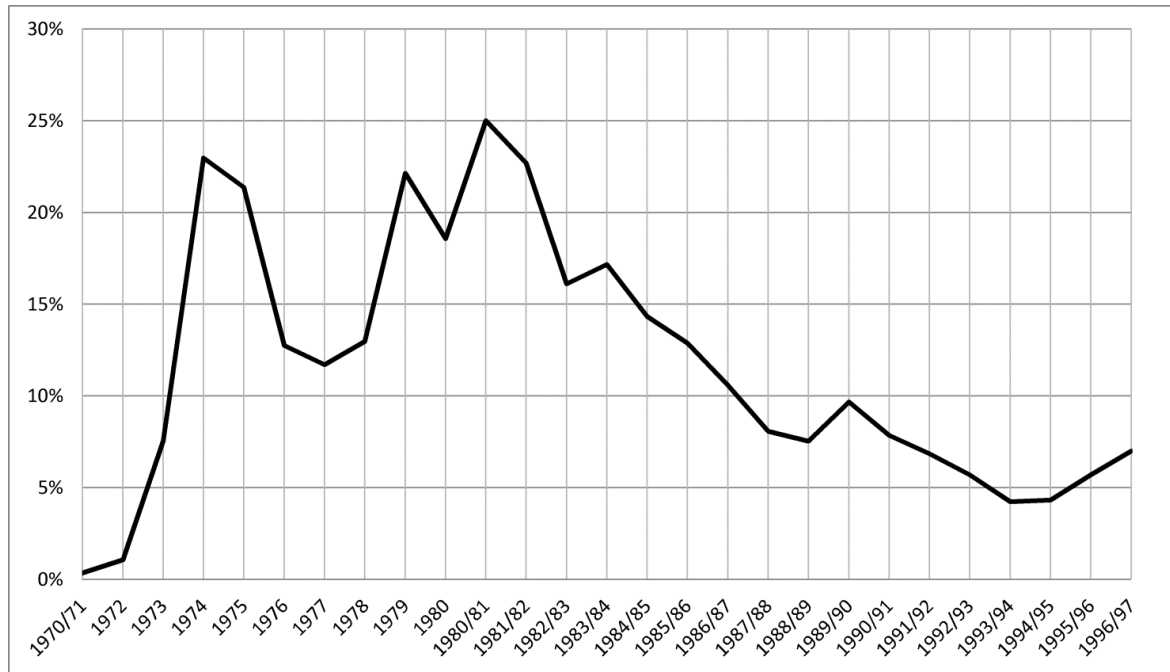
The government's strong commitment to this programme encouraged most citizens to become dependent on this programme. More than 90% of Egyptian citizens were ration cardholders and almost all Egyptians could access subsidised foodstuffs during the Sadat presidency. This means that ration cards lost their substance during this period (Ali & Adams 1996: 1778). Accordingly, more people depended on food subsidies. According to Alderman, von Braun & Sakr (1982: 75), for example, average farm households in Sharkiya Governorate spent 13.2% of their total expenditure on subsidised and rationed food in 1981. Moreover, wheat consumption per capita increased, as indicated in **Figure 4.2**. This was partly because the government continued to provide the population with subsidised bread at low prices (Alderman, von Braun & Sakr 1982: 29). Thus, the food subsidy programme became the most important social welfare programme in the country. The institutional expansion created the expectation that the government should insulate consumers from unstable international markets at any expense. The Sadat government also maintained "the idea that consumer subsidies were not just a safety net protecting the needy, but an expression of equity granted to the mass of society as a counterbalance to the privileges enjoyed by the rich" (Sadowski 1991: 160).

However, the government began to suffer from the increasing burden of the programme on the budget. In the Sadat era, expenditure on the programme sharply increased, from £E3 million in 1970/71 (only 0.4 % of the total current expenditure) to £E1.1 billion in 1980/81 (approximately 30% of the total current expenditure) (Alderman, von Braun & Sakr 1982: 13-15). Accordingly, a ratio of food subsidy expenditure in the total current expenditure reached 23.0% in 1974 (**Figure**



4.5). The high percentage of the expenditure restricted government discretion over the budget. Although citizens' dependence on the programme made it difficult for the government to implement subsidy cuts, the increasing burden on the exchequer made subsidy reform inevitable.

**Figure 4.5: Percentages of Food Subsidy Expenditure in the Total Expenditure (1970/71-1996/97)**



Source: Calculated by Author, based on Alderman, von Braun & Sakr (1982: 14), Table 1; Ahmed *et al.* (2001: 8), Table 2.1; and the CBE (1983-2002/03).

The government took several measures to reduce the amount of expenditure on the programme. As the country changed its stance from pro-Soviet to pro-US, pressure was exerted directly by the US government and indirectly by the IMF and the World Bank in the Sadat era. Consequently, the government started negotiations with the IMF in 1976 (Hirst & Beeson 1981: 236-237). The IMF also recognised the necessity of economic reform in Egypt. On 16 October 1976, the IMF sent to the Minister of the Economy, Dr Zeki Shafei, a confidential memorandum, which addressed the necessity for radical economic reform (Haykal 1983: 90). In negotiations with the IMF, the government agreed to the economic reform package, which included a sharp devaluation of the Egyptian pound, reducing the fiscal deficit and cutting subsidies for consumer goods, especially for

bread and wheat. Accordingly, President Sadat notified the Parliament that the government had decided to reduce expenditure on consumer subsidies by 50%, from £E553.7 million to £E276.4 million (Sadowski 1991: 154-155). It was expected that this subsidy would lead to increasing prices of subsidised commodities as follows: 72% extraction flour (67%), *fino* bread (50 %), *butagas*<sup>7</sup> (46%), gasoline (26-31%), rationed rice (20%) and regulated sugar (4%) respectively (Ahmed *et al.* 2001: 7). The government seemed to think that, as the government excluded staples (i.e., *baladi* bread and wheat) from subsidy cuts, the influence of the cuts on an average family in Egypt would be minimised (Gutner 1999: 18-19).

Contrary to the government's expectation, the population rejected this proposal. Their complaints exploded, taking the form of demonstrations against the government, some of which turned into riots (the 1977 food riots).<sup>8</sup> Demonstrations began early in the morning of 18 January in Alexandria. Factory workers marched into the city centre. When some demonstrators tried to head for the Governor's Office and the headquarters of the ASU, the police reacted brutally. During the clashes with the police, the demonstrators set fire to the ASU building. Their anger was directed not only at President Sadat but at Vice President Hosni Mubarak.

They attacked and ransacked restaurants, bars and shops. Another place which did not escape the anger of the mob was the summer residence, in a quiet and fashionable suburb, of *La Vache Qui Rit*, the nickname the rioters bestowed on Vice President Husni Mubarak; his fixed, bland smile reminded them of the laughing cow on the boxes of proceeded French cheese that had flooded the market in recent years (Hirst & Beeson 1981: 242).

At the same time, demonstrations occurred near the capital city, Cairo. Workers in Helwan began to organise a peaceful and spontaneous demonstration and marched towards downtown Cairo. In the beginning there was no violence. The number of demonstrators was swelled by workers from Cairo City and university students. In Cairo, the police took the same measures as in Alexandria.

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<sup>7</sup> It is butane gas used for cooking.

<sup>8</sup> It should be noted that there had been pent-up discontent with the severe economic situations created by the *infitah* before the 1977 food riots. On 1 January 1975, the first major demonstrations since 1967 had occurred. The demonstrators shouted: 'Feen al-Futuur (Where is our Breakfast?)' "They had no breakfast, or, at least, they had a minimum wage which, at £E12 a month, was less than one twelfth the 'cover' price for a New Year reveller and his wife at the Meridien" (Hirst & Beeson 1981: 231).

Accordingly, the demonstration turned violent and the opposition movement spread all over the city. In response to the riots, President Sadat demanded that the military intervene. Finally, the Sadat government decided to cancel the proposed subsidy-cuts, broadcasting a statement to this effect through radio (Gutner 1999: 18-19; Hirst & Beeson 1981: 242-244; Sadowski 1991: 156).

The riots indicated that the government was unable to eliminate subsidies or to embark on radical institutional reform because such measures would change the structure of income distribution. Therefore, the government attempted to maintain the food subsidy programme. Right after the food riots, President Sadat announced that the government should:

- 1 – find alternative means of securing the necessary resources to cover the deficit in the budget and reform the structure of economy within the framework of an integrated plan [and]
- 2 – avoid any measures affecting the people's food or clothing (Anon. 1977: 4).

Moreover, it confiscated US\$2 billion from the Gulf Organization for the Development of Egypt (GODE), an Arab aid agency. The aim of this confiscation was to obtain resources to expand the subsidy system to frozen beef and chicken. The Ministry of Supply furthermore decided to deliver subsidised flour to rural areas although the benefits of this programme had previously only been distributed to urban residents (Sadowski 1991: 160). The IMF also allowed the Egyptian government to prioritise the stabilisation of social order and to temporarily suspend economic reforms. According to the *Financial Times*, the Egyptian government and the IMF reached an agreement about an extended credit facility of 400 million SDR. In addition, the IMF also agreed that the government could maintain food subsidies at the previous level of £E500-600 million a year (Tingay 1977: 6).

After the 1977 riots the Sadat government had to take more care of food prices and the subsidy programme. On 2 May 1981, President Sadat mentioned that the government would increase expenditure on food subsidies in his speech. This speech was recorded as part of the May-Day rally, in which the President usually promised to increase social benefits to citizens, such as food subsidies, public sector wages and pensions (Anon. 1981b). Among the social benefits, food subsidies were the most important for the government because increasing food prices would affect

most citizens and might immediately lead to social unrest. The government stressed its continued commitment to food subsidies and to stabilising prices of commodities. The Deputy Prime Minister for Economic and Financial Affairs, Abdul Razzek Abdul Meguid, said “these [subsidies for basic commodities] would not be reduced for any commodities, keeping them available to low-income people at reasonable prices” (Anon. 1981c: 3). Indeed, a new Five-Year Plan also gave the highest priority to food security and pricing policies. The plan confirmed that the government would stabilise food prices, “supporting price control and price monitoring agencies to maintain a healthy structure of absolute and relative prices” (MoP 1982: 147).

The food subsidy programme changed its primary goal, from an institutional complement to the industrialisation project to a populist tool to divert criticism of the *infatih* during the Sadat era. This was because the Sadat government recognised that the expansion of the food subsidy programme was the most useful strategy for the government to alleviate popular discontent about inflation, as the *infatih* led to price hikes. Moreover, as pointed out in a World Bank report, conventional social welfare programmes (such as cash transfer and social insurance) only covered a small number of citizens in MENA countries (including Egypt) and their effects as social welfare programmes were restricted (Silva, Levin & Morgandi 2012: 56). Once this expansionary strategy was adopted, the populace became gradually more and more dependent on the food subsidy programme and stable food prices were critical for the survival of the authoritarian regime. The 1977 food riots showed that the government really needed to continue this strategy in order to survive. As discussed in **Chapter 2**, President Sadat exploited a discourse of ‘socialism’ to legitimate his strategy, emphasising that his ‘socialism’ aimed to deliver social welfare benefits, enough food and accommodation in particular (Anon. 1978). By exploiting the discourse, the government reinforced mechanisms for income distribution represented by the food subsidy programme. This mechanism reinforced a discourse of the ‘social contract’ (Sadowski 1991: 157), which determined a pathway of change in the food subsidy programme in the Mubarak era.

#### 4-3. Change and Continuity of the Food Subsidy Programme in the Mubarak Era

When President Hosni Mubarak took office in October 1981, the food subsidy programme was faced with a dilemma. This programme was imposing a heavy burden on the budget and the balance of payments. Expenditure on the programme had accounted for more than 10% of the total public expenditure since 1974 until 1981/82 and led to persistent budget deficits (see **Figure 4.5**). Moreover, imported wheat and flour for this programme caused scarce foreign exchange and increased the country's foreign debt, which reached US\$ 46 billion (Gutner 1999: 20). These two huge deficits – the budget and trade deficits – forced the government to implement drastic subsidy reforms immediately, which was financially supported by the IMF. However, the 'social contract' made it difficult for the government to rationalise the programme. The memory of the 1977 food riots forced the government to hesitate when planning drastic reforms. As a steep rise in food prices would alter the structure of income distribution and damage the populace, drastic reform that triggered a price hike and was regarded as the violation of the social contract might lead to social destabilisation. The Mubarak government therefore took measures to avoid steep rises in food prices. Although the government successfully reduced expenditure on food subsidies in the 1990s, the quality of subsidy reform was restricted. It could not change the universalist feature that every citizen could access subsidised *baladi* bread. This failure led to the expansion of the food subsidy programme the 2000s. As a result of food price hikes, Egyptians queued for subsidised bread. The government also increased the number of subsidised commodities at the expense of institutional efficiency as a poverty alleviation programme.

##### 4-3-1. Subsidy Cuts and Economic Reform in the 1980s and 90s

Despite the urgent need to solve the fiscal deficit problem through IMF loans, the government was reluctant to implement drastic reform in exchange for loans. Negotiations with the IMF did not reach agreement because there were differences of views between the two regarding (1) the

unification of exchange rates and (2) elimination of price controls over foodstuffs, both of which would lead to food price hikes. As the government imported foodstuffs (including wheat and flour) at an unrealistically high official rate, the unification of exchange rates would accompany the devaluation and trigger food price hikes. It also objected to the elimination of price controls over foodstuffs because it had considered the stable provision of foodstuffs at low prices to be critical for the survival of the authoritarian regime since the 1977 food riots. In October 1984, President Mubarak therefore ordered that the Ministry of Home Trade and Supply should take measures to maintain prices of macaroni and cooking oil and provide one-piastre bread abundantly to citizens in all areas. Also, he called for stricter control over the prices of foodstuffs. On 30 September 1984 President Mubarak mentioned wheat prices as follows:

“We must be aware of this problem and strive hard to limit our consumption of wheat grain and flour as wheat is a strategic commodity,” he said.

“I am facing a great responsibility,” the President said, adding: “Our population is growing at the rate of more than one million per annum and I daily watch all things big and small to assure each Egyptian citizen a life of freedom and integrity” (Anon. 1984b: 1).

The Mubarak government was reluctant to implement drastic economic reform that would damage the stability of food prices, especially those of strategic commodities including wheat. Consequently, the Mubarak government left an unrealistically high official rate for the currency and failed to rationalise food subsidies, which was a factor in failed negotiations with the IMF (Walker 1985: 3).

The government reluctance was also expressed in public statements. The Minister of Economy and Finance, S. Hamed, stated that the IMF staff should appreciate the government’s efforts to implement economic reform:

The effort would have received a more favorable appraisal if sufficient weight had been given to the great social and political constraints with which the policymakers were faced and that were too well known to warrant elaboration. It sufficed to say that political stability and social equity, both real and perceived, were the sine qua non of sustained adjustment (IMF 1985: 7).

The government reluctance indicated that it was important for the government to maintain the food

subsidy programme to keep food prices low. Therefore, it attempted to avoid economic reforms related to these two issues. In the summer of 1985, the IMF's negotiators however asserted that, unless the government accepted the stand-by loan and implemented economic reform in the short terms, the country might be faced with a critical debt situation within one year (Momani 2005: 11). However, the Mubarak government only partly implemented the economic reform suggested by the IMF and would not raise prices of fuels (such as gas oil, kerosene and diesel fuel) and natural gas, which were highly subsidised by the government (Carr 1990: 244-245).

Because of the severe financial situation, the Mubarak government was gradually forced to accept the exchange rate reform that the IMF suggested. In 1986, a decline in revenues from oil production and tourism led to economic stagnation and forced the government to start formal negotiations with the IMF. The most important issue in the negotiation was the devaluation of the Egyptian pound. Whereas the IMF recommended that the Egyptian government should devalue the Egyptian pound and unify exchange rates, the Egyptian government stated that it was unacceptable to take these measures because they would increase prices of subsidised foodstuffs. In the late 1970s, the country had already experienced gradual devaluation.<sup>9</sup> Therefore, the government wanted to restrict the economic influence of the devaluation. The Mubarak government successfully reached a compromise with the IMF when the IMF negotiators flew to Cairo, and obtained a letter of intent from the Egyptian government (Walker 1987: 4). The two parties agreed to several reform plans.<sup>10</sup> According to this agreement, the government was responsible only for partial exchange rate reform. Although banks were supposed to transact Egyptian pounds and foreign currency at the free exchange market rate (devaluation from £E 1.38 per US\$ 1.0 to £E 2.16 per US\$ 1.0), the government did not apply this rate to imports of strategic goods, which constituted 45% of the government's transactions, and continued to use the official rate (£E 0.7 per US\$ 1.0) for these transactions (including imports of wheat, flour and sugar) (Momani 2005: 17-18;

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<sup>9</sup> At that time, the devaluation imposed a heavy burden on the exchequer by depreciating the currency by 56% between 1977 and 1979 because the government covered the increase in importing costs (Alderman, von Braun & Sakr 1982: 15).

<sup>10</sup> As for other terms that the Egyptian government and the IMF agreed to, see the IMF (1987: 45-51).

Negm 1988: 9). Thus, the government protected imports of subsidised wheat from an effect of the devaluation to prevent a steep rise in prices (Momani 2005: 18).

Nonetheless, the government hesitated to implement drastic reforms for fear such drastic reforms would trigger violent reactions. The 1977 food riots had indicated that the area of food subsidies should be a 'sanctuary' that the government could not enter. Even partial subsidy cuts might trigger political instability and damage the government's legitimacy that was based on distributive justice (Salevurakis & Sahar Mohamed 2008). Reflecting the preferences of the ruling elite, therefore, subsidy reform was implemented implicitly to avoid triggering social unrest. The contents of the reform could be categorised into three: (1) ration card reform, (2) cash compensation and (3) 'reform by stealth' (Sadowski 1991).

(1) **Ration card reform**: Prior to negotiations with the IMF, the Mubarak government had already embarked on subsidy cuts. A ration card system had been introduced in 1966, so that the government had data on monthly quotas of rationed goods in each family (Abdel-Latif & El-Laithy 1996: 298). The government now divided the ration cardholders into two for a better targeted rationing mechanism in 1981. Whereas green cardholders could buy subsidised foodstuffs as in the past, the government reduced the subsidised ratio for red cardholders, who could purchase several subsidised goods (such as sugar, cooking oil, tea and rice) at less favourable rates than green cardholders. Furthermore, the government attempted to restrict the number of ration cardholders. The Ministry of Trade and Supply (MOTS) announced that the government would not issue ration cards to new-born babies after 1989. Another stealth strategy was to invalidate ration cards held by those who had already moved abroad or been dead. According to Ahmed *et al.* (2001: 7-9), these measures decreased the number of ration cardholders, from 99% in 1981/82 to approximately 70% in 1998, although the decrease was gradual and limited.

(2) **Cash compensation**: Prime Minister Ali Lutfi (from September 1985 until November 1986) proposed this scheme in which the government would abolish consumer subsidies and make direct payments to the vulnerable. Originally, the cash compensation was supposed to cover all



citizens. The government planned to compensate public sector employees with an annual bonus and rural residents with special grants through village banks. Prime Minister Lufti thought that this cash compensation would enable the government to withdraw financial support to the rich, such as the bourgeoisie, shopkeepers, and land owners, who accounted for approximately 23% of the total population. However, this scheme covered only public sector employees and increased their wages by 20% in June 1987. Thus, rural residents and poor urbanites ended up bearing the brunt of subsidy cuts and inflation triggered by the public-sector's wage hike. This idea was partially implemented by Lufti's successor – Atef Sedki (from November 1986 until January 1996) – because it was difficult to eliminate all food subsidies. Along with the cash compensation, the government raised the prices of some consumer commodities, such as cigarettes and sugar (Sadowski 1991: 163-164).

(3) **'Reform by stealth'**: The government reduced expenditure on subsidised bread without any warnings. First, subsidised bread was replaced with a more expensive version. In 1984 the government introduced higher-quality two-piastre subsidised bread as well as the existing one-piastre loaf. At the beginning, people could purchase both types of bread. Second, the government gradually reduced the distributed amount of the one-piastre bread in the market. At the same time, the quality of the one-piastre bread was also downgraded. This process encouraged consumers to purchase the two-piastre bread. Third, the government stopped delivering one-piastre bread to the market. As a result, they automatically shifted from the one-piastre bread to the widely available two-piastre one. Fourth, this strategy was repeated until the price of subsidised bread became five piastres. This strategy enabled the government to increase the subsidised bread price from one to five piastres in 1989 without wide-spread objection. Furthermore, the government successfully reduced the loaf size of subsidised bread, from 168g to 160g (in 1984) and to 130g (in 1991) (Ahmed *et al.* 2001: 9-10).

Despite the government's efforts to rationalise the food subsidy programme, the efficiency of the programme in tackling poverty alleviation was restricted. Leakage was one of the largest

problems in this programme. Although making a loaf of bread cost 2.8 piastres, the government only allowed bakers to charge two piastres. Bakers therefore attempted to make profits by utilising price gaps between three kinds of flour: 82% extraction (for *baladi* bread), 72% extraction (for *fino* bread) and pastry flour. The price of pastry flour was nearly double of *fino* flour and nearly triple of *baladi* flour, respectively. They bought low-quality flour at a low price in the market, sifted out its bran from it, and sold it as 'higher-quality *fino* flour'. It is estimated that this illegal practice enabled bakeries to reduce their costs by more than 30%. Cheap subsidised bread distorted incentives in the countryside and encouraged farmers to use subsidised bread as animal feed, or a substitute for corn. A shortage of hard currency led to restricted imports of corn. Subsidised wheat flew into the black markets for these farmers because it was more profitable than delivering the wheat as ordinal subsidised bread in official markets (Sadowski 1991: 35-37).

Although the programme still had such shortcomings, the Mubarak government would not implement further reform for fear of social unrest. According to an article in the *Financial Times*, the Egyptian government was concerned that the agreement with the IMF would endanger civil order. Mr Ibrahim Nafeh, editor-in-chief of al-Ahram, also asserted that the government should not rush the implementation of the IMF agreement at the expense of people's lives: "Egypt is the master of its own decisions, the planner of its own programme and administrator of its own reform steps which it sees fit for its social and economic position" (Walker 1988a: 4). Reflecting the reluctance in the country, the government also asked the IMF for more time to implement the agreed reform plans.

The Egyptian representatives expressed the view that the adjustment envisaged in the staff scenario was too rapid, and its impact would jeopardize economic growth and social stability. The pace of reform had to be geared to likely public reaction, and public tolerance had now been stretched to the danger point. They stressed that the Government was committed to economic reform, but that the adjustment effort would have to extend over a large number of years in areas such as the pass-through of full unification of the exchange system to the prices of essential commodities (IMF 1988: 19).

The government did not unify the exchange rates or taking further measures. Consequently, the

1987 Stand-By Agreement resulted in failure and the government did not implement radical subsidy cuts.

Although a worsening debt situation in Egypt forced the government to ask the IMF for financial assistance and to begin negotiations with the IMF in 1988, the government repeatedly criticised the IMF. At a mass rally in a Nile Delta town, President Mubarak “likened the IMF to an unqualified doctor and charged that it prescribes a ‘huge dose’ of medicine that is detrimental to the health of the patient” (Walker 1988b: 6). At the rally he remarked that, although Egypt would need economic reform, “this reform must be in line with our social and economic situation and the standard of living” (Walker 1988c: 5). Furthermore, when he travelled to European countries to ask for help from governments, he expressed his concern to his European hosts that the IMF’s prescription would lead to social unrest (Walker 1988c: 5). His remarks indicated that the Egyptian ruling elite were concerned about the IMF’s pressure for radical economic reform, including decreasing the budget deficit, cutting consumer subsidies and unifying exchange rates. Their argument was strengthened by the recent Algerian riots, which had been triggered by price increases (Walker 1988d: 4).

Such experiences pushed the Mubarak government into adopting contradictory measures regarding food subsidies. The government promised that Egypt would embark on economic reform to persuade its creditors to reschedule their loans in November 1988. Moreover, it informed the IMF of a reform plan to reduce the fiscal deficit, including subsidy cuts in November 1989. An IMF report mentioned that the government would reform a distribution system of subsidised and non-subsidised foodstuffs:

In particular, 5 piastre bread had supplanted the 2 piastre loaf by July 1989 and the authorities planned to eliminate the tea ration, with distribution fully shifted to market-related prices by year-end. These measures were officially estimated to reduce food subsidies by about one third, equivalent to 1 percent of projected GDP (IMF 1989: 15).

The government however promised to increase subsidies for the vulnerable in the new budget plan in June 1989. This measure aimed to ease the negative impact of the devaluation on the vulnerable

(Cowell 1989).

The government's inadequate reform threatened food security. As a result of the government's plans, the amount of two-piastre bread distributed in the market began to decline in January 1989. In Cairo bakeries, two-piastre bread was sold out by midmorning. In the country side, bakeries suffered from flour shortages and could operate for only two hours a day. Peasants rushed into small cities like Minya, where bakeries were still functioning. Their discontent easily tuned into anger towards the Mubarak government. Indeed, people in Minya and Bani Suwayf organised public protests, shouting anti-government slogans. The bread shortage stemmed from a feature of the food subsidy programme. As wheat prices in international markets rose, bakeries had more incentives to utilise subsidised wheat for non-subsidised bread or pastry because prices of the non-subsidised commodities were strongly connected to international wheat prices. Therefore, a price gap between subsidised bread and these (non-subsidised) commodities widened as wheat prices in international markets increased (Sadowski 1991: 35-36). To make matters worse, the lack of funding for importing wheat deteriorated the situation. According to agricultural experts' estimations, Egypt needed to mobilise approximately 1.5 million tonnes of wheat for the next six months (from April to September 1989) until the government was due to receive US food aid in October 1989. The government however did not have enough resources to purchase wheat. Meanwhile, France and Canada suspended new sales of wheat to Egypt because the country did not meet payments on old loans (Slavin 1989: 7).

Nonetheless, the government cheated the populace, claiming that it had no intention of raising food prices, continuing to deny the necessity of implementing subsidy reform. For example, the Minister of Supply remarked that this crisis was 'factitious' at a Cabinet meeting on 5 April 1989. At the same meeting, he mentioned that the government had been already providing the sufficient amount of wheat to citizens:

He [the Minister of Supply] asserted that the country's wheat stockpiles are secured and that the execution of related accords is under way in order to get two million tons of wheat from Australia. In this connection, the Minister reviewed other accords reached with France and Italy on wheat supplies. The local output of wheat this year is

expected to reach 2,800,000 tons, said the Minister, adding that a number of measures have been taken to ensure the availability of flour to the public (Anon. 1989: 2).

Moreover, Prime Minister Sidki publicly denied that the government would raise commodity prices in *The Egyptian Gazette*. He was “emphatic about the absence of any price raises in the planning stage and explained the plan being implemented by the government [did] not call for moving commodity prices up” (Anon. 1990a: 1). President Mubarak also referred to economic reforms proposed by the IMF in an interview with *Al-Ghomhuria*. He emphasised that the government disputed the two points – (1) raising the prices of some commodities and (2) moving up the exchange rate and would not accept these proposal that would trigger price hikes.

“I stand in favour of pursuing economic reform but only in as much as can be afforded by the ordinary citizen,” President Mubarak said, likening this matter to demanding a weight lifter who can lift only 100 kg to lift one full ton (Anon. 1990b: 1).<sup>11</sup>

The government attitude towards subsidy reform in the 1980s was characterised by its reluctance to unify exchange rates and eliminate the price control policy.

The Gulf War in 1991 however created a more favourable environment for the Egyptian government to embark on economic reform, including subsidy reform. In the war, Egypt co-operated with the multinational forces against Iraq under the leadership of the United States. In return for Egyptian co-operation, the United States and Paris Club members agreed to relieve Egypt from a heavy burden of debt, improving foreign exchange reserves. This situation enabled the country to embark on exchange rate reform with moderate change in the exchange rate, which meant that the government could eliminate subsidies for several commodities without a sudden rise in the prices (Momani 2005: 26). The government therefore aimed to eliminate subsidies for commodities that were considered to benefit high-income groups, such as meat (in 1990/91), fish and tea (in 1991/92), and rice (in October 1992). In addition, the government attempted to restrict types of subsidised flour to the low-quality variety (wheat flour for *baladi* bread) and abolished subsidies on two types of high-quality flour: *fino* bread and 72% extraction flour in 1992, and *shami* bread and 76% extraction flour in 1996 respectively. It was also recorded that, in order to

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<sup>11</sup> The original interview was recorded in Arabic and translated to English by *The Egyptian Gazette*.

reduce subsidy costs, the government took the tricky measure of mixing maize flour with 82% extraction wheat. Thanks to government's efforts, subsidised commodities were restricted to four items: *baladi* bread, 82% extraction flour, cooking oil and sugar (Ahmed *et al.* 2001: 7-10). Furthermore, the government made progress in the rationalisation of the currency exchange system. In August 1989, it devalued the official exchange rate (the Central Bank pool) by 63.6% (from £E0.7 per US\$1.0 to £E1.1 per US\$1.0) as the first step. Next, the government carried out further devaluation of the official rate by 55% in July 1990. Finally the government successfully unified the exchange rates in October 1991.<sup>12</sup> At the same time, the Egyptian pound was devalued by approximately 15% (Abdel-Khalek 1993: 10).

The subsidy reform in the 1980s and 1990s had positive impacts both on the budget and on the social welfare system. The government's efforts successfully reduced food subsidy costs. The ratio of the programme's expenditure to the total government expenditure went down, from 25.0% in 1980/81 to 7.0% in 1996/97 (**Figure 4.5**). It should be noted that the substantial effects of the reform were thought to be larger than the explicit data showed. This was because the government had covered the costs of imported foodstuffs both explicitly and implicitly, especially before eliminating an overvalued official exchange rate for importing the commodities in 1991/92. According to the World Bank's estimation, the implicit food subsidies account for approximately 40% of the total food subsidies (the explicit + implicit subsidies) in 1989/90 (Ahmed *et al.* 2001: 10). Furthermore, the government succeeded in improving the programme's efficiency as a poverty alleviation programme in two ways. First, the subsidy reform restricted the target of this programme to the vulnerable by eliminating subsidies for 'luxury' commodities. The four still-subsidised items (i.e., *baladi* bread, 82% extraction wheat flour, edible oil and sugar) were necessary for daily life of the vulnerable. Second, the subsidy reform reduced the number of ration cardholders. The percentage of ration cardholders in the population declined from more than 90% in 1981 to less than 70% in 1997. At the same time, the ratio of red cardholders also declined

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<sup>12</sup> However, the IMF found that the government still continued to use the former Central Bank rate in select transitions (Mamani 2005: 46).

(Korayem 2001: 74-75).

However, the reform was restricted for following two points. First, the government rejected the further devaluation of the Egyptian pound. Although the present overvalued exchange rate had a negative impact on export-led economic growth, the government persistently maintained the exchange rate to avoid price hikes of commodities, especially wheat. Gouda Abdel-Khalek (1993: 21) also asserts that the Egyptian pound was overvalued against the US dollar by 20-25% between 1991 and 1993. In June 1994, the mass media reported that the government would devalue the Egyptian pound in accordance with the IMF's suggestion. This report promoted the selling of Egyptian pounds on the financial market. In response to such a situation, several ministers denied this report. For example, the Minister of Public Sector, Atef Obeid stated that the government would resist the IMF claims that the country should devalue to increase non-oil exports, showing evidence that exports in the country were already increasing: "We made it very clear we disagree [to the devaluation]. ... We will do what is right for the Egyptian economy" (Nicholson 1994: 7). Another minister also mentioned that the Egyptian government would never devalue at any expense. Minister Boutros-Ghali supported the government claim at the American Chamber of Commerce in Washington, stating that the overvaluation of the Egyptian pound was necessary to protect the vulnerable. The government asked an Egyptian member of the IMF executive board, Abdel Shakour Shaalan, to support the Egyptian government's assertion. Thanks to his support, the government successfully rejected the devaluation. Although the IMF staff considered the devaluation to be important for increasing exports and economic growth, the Mubarak government had successfully excluded their argument from agreements between Egypt and the IMF. This strategy sacrificed export-led economic growth, but the government successfully maintained stable provision of foodstuff and the food subsidy programme (Momani 2005: 61-62).

Second, the government could not completely overcome the main shortcoming of the programme – the universalist feature of food subsidies. All citizens were still allowed to purchase subsidised *baladi* bread and flour. In reality, most Egyptians depended on subsidised commodities

(*baladi* bread, in particular). As indicated in **Table 4.1**, approximately 70% of Egyptians purchased subsidised *baladi* bread regardless their income. The data shows that even rich people depended on subsidised *baladi* bread. Consequently, this structure made it difficult for the government to implement drastic reforms that would leave only the vulnerable as beneficiaries. Moreover, even rationed items (such as sugar and cooking oil) were poorly targeted and distributed to those who did not necessarily need the programme's assistance. It was assumed that the rationed items were distributed to ration cardholders, who were thought to really need the programme. Whereas some of the rich had green cards, the government failed to deliver ration cards to those who needed the programme because of lacked access to information on how to get a ration card (Gutner 1999: 24-25; World Bank 1991: 57). Consequently, the universalist feature led to high delivery costs. The Egyptian food subsidy programme needed US\$2.98 to deliver \$1.00 of *baladi* bread to the needy in 1997. It also cost US\$4.64 to deliver US\$1.00 of ration cooking oil to the needy. This data indicates that the Egyptian food subsidy programme was more inefficient as a poverty alleviation programme than those in other countries. The costs of food subsidy programmes in the Philippines, Brazil and Columbia were US\$1.21, \$1.19 and \$1.58 respectively (**Table 4.2**).

**Table 4.1: Share of Households Purchasing Subsidised *Baladi* Bread, by Region and Expenditure Quintile (1997)**

Region	Per capita expenditure quintile					Average
	Lowest (1)	(2)	(3)	(4)	Highest (5)	
	(percent of all survey households)					
Whole Country	75.5	66.8	68.2	71.6	75.7	71.1
Metropolitan	98.6	94.8	86.0	93.7	89.6	92.5
Other urban	91.4	84.4	83.8	80.1	82.4	83.7
Rural	58.2	51.5	57.1	55.4	59.5	56.1

Source: Ahmed *et al.* (2001: 33), Table 5.5.



**Table 4.2: Efficiency of Food Programs (Cost to Deliver \$1.00 Subsidy to the Poor)****(A) Comparison between the 1990s (before the expansion) and the 2000s (after the expansion)**

Subsidised commodities	Year	
	1997	2005
<i>Baladi</i> bread	2.98	5.20
10-piaster bread	N/A	46.42
Ration sugar	3.34	4.99
Ration cooking oil	4.64	5.23
Food items added in 2004	N/A	5.08

**(B) International Comparison**

Country	Program	Year	Cost
The Philippines	Pilot food price subsidy scheme	1984	1.19
	General rice price subsidy	1992	5.98
Brazil	Food subsidy (PINS)	1980	1.21
	Preschool feeding and nutrition education	1980	2.38
Columbia	Food subsidy	1981	1.58
Indonesia	Feeding program	1982	2.48
Tamil Nadu, India	Weighing and feeding	1982	1.74
Bangladesh	Vegetable group development program	1992	1.62
	Food for work program	1982	2.44
	Food for education program	1994	1.59
	Rural rationing program	1992	6.55

Source: World Bank (2005: 29), Table 3.2.

Changes to the food subsidy programme in the 1990s were characterised by the government's balancing the IMF's demands and the popular expectations. The IMF exerted pressure on the government to implement budget cuts and rationalise the food subsidy programme. In return for IMF loans, the IMF encouraged the Egyptian government to implement the devaluation of the currency, eliminate price controls and introduce subsidy cuts. However, the Egyptian population expected the government to provide foodstuffs at a reasonable price, which was regarded as part of the social contract. The IMF proposals might therefore threaten the social order. Consequently, the government adopted implicit measures to cut expenditure on food subsidies, avoiding drastic subsidy reforms. Although the government was subject to pressure to rationalise complex exchange

rates, it only reluctantly accepted the proposal little by little. It repeatedly attempted to avoid devaluation because devaluation would trigger commodity price hikes and, if the government continued to subsidise foodstuffs, increase the burden of the food subsidy programme on the exchequer. Thus, the implementation was not sufficient to boost the country's export-led economic growth. The government's behaviour indicated that food security was a critical issue for regime survival. The populace believed that drastic reform that might change the structure of income distribution was a violation of the social contract.

#### 4-3-2. The Institutional Backlash?: The Food Crises and Institutional Expansion in the 2000s

In the 2000s, the government was faced with two food crises in the shape of two steep rises in food prices, which automatically increased the importance of the food subsidy programme. The government took measures to expand the programme to ease the negative effects of the crises. The first crisis stemmed from a domestic factor: the devaluation of the Egyptian pound in 2003. The second crisis was triggered by a steep price rise in international market prices between 2007 and 2008. The two crises encouraged the government to utilise the programme as a tool to ease discontent in order to avoid social unrest, as with the 1977 food riots.

**The First Crisis in 2003:** This crisis was triggered by the devaluation of the Egyptian pound in 2003. Since 1991, the Central Bank of Egypt (CBE) had maintained a strict peg of £E3.39 to the US dollar. However, economists and bankers pressed to change the policy. The market exerted further pressure on the CBE to release part of the CBE's currency reserves in response to a worsening of the trade deficit caused by an increase in imports of 8%. Consequently, the Egyptian currency reduced its value by 2% and fell to £E3.46 in March 1999 (Huband 1999a: 6). Although bankers had addressed the necessity of the devaluation for further economic development since then, the government was still reluctant to implement the devaluation of the Egyptian pound (Huband 1999b: 16). The pound was finally devalued four times in 2000 and reduced its value by

25% against the US dollar in 2000, but the unofficial rate of the pound continued to fall to £E5.10 per US\$ in June 2002. As the stability of the currency was based on fragile foundations, it was pointed out that the currency would continue to fall unless the government could restore confidence in it (Swann 2002: 48). Finally, Egypt shifted to a free-floating system in January 2003 (Drummond 2003a: 11). Consequently, the 30% devaluation of the Egyptian pound led to an increase in prices of 28%, and of food-retail prices by 38% (Kraay 2007: 4).

The increase in domestic food prices made the Mubarak government take several measures through the food subsidy programme because a rise in food prices might trigger social unrest. First, the government began to subsidise ten-piastre bread as well as the existing bread. As a result the population were offered an additional option for cheap bread. Second, in the next year, the government decided to increase the number of subsidised items to eleven by introducing subsidies for seven items: rice, ghee, pasta, broad beans, lentils, tea, and additional quantities of cooking oil (Trego 2011: 670-673).<sup>13</sup> According to the *Financial Times*:

While consumer price inflation is only 4 per cent, wholesale price inflation has reached 19 per cent. The CPI is kept artificially low as the basket includes the subsidised food, subsidised petrol and electricity and housing costs, all of which are controlled (Drummond 2003b: 54).

This article indicates that the food subsidy programme helped to reduce consumer prices, especially those of foodstuffs. The government measures caused an increase in expenditure on the food subsidy programme, from £E 6.9 billion in 2002/03 to £E 10.3 billion in 2003/04 (El-Shennawy & Galal 2004: 3).

Although the food subsidy programme protected the vulnerable from a sudden hike in food prices in the beginning of the 2000s, the expansion imposed yet another heavy burden on the exchequer. President Mubarak aimed to rationalise the social welfare system by replacing the food subsidy programme with 'pure' poverty alleviation programmes (such as direct cash transfer). The

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<sup>13</sup> This measure was temporary. As the new programme was criticised for its small impact on poverty alleviation, some of the subsidised items were replaced by commodities that were more efficient for poverty alleviation (Audet, Boccanfuso & Makdissi 2007). Whereas subsidies for ghee, pasta, broad beans and lentils were eliminated, a subsidy for an additional portion of sugar was introduced in 2006 (Trego 2011: 671-673).

appointment of Ahmed Nazif to Prime Minister in 2004 was a signal for the rationalisation of the social welfare system. The new prime minister embarked on further economic liberalisation, including the privatisation of public enterprises, tariff reduction and tax reform. Subsidy reform was also part of his economic reform plan. He planned to replace the existing food subsidy programme with an alternative poverty alleviation programme – a conditional cash-transfer programme in December 2007. However, a global rise in food prices (the second crisis) led to popular discontent towards the government, which forced President Mubarak to postpone the implementation of the new subsidy reform plan (Trego 2011: 671-673).

**The Second Crisis in 2007:** This crisis was caused by a rise in global food prices in 2007. The global price rise directly affected the costs of food imports. The annual amount of imported wheat in 2007 was similar to that in the previous year, but the costs drastically increased from US\$1.5 billion to US\$2.5 billion (Trego 2011: 670-671). Domestic food prices increase by 35.5% in August 2008. Prices of foodstuffs, such as edible oil, cereals (i.e., wheat and rice), and lentils and milk, increased between 2006 and 2008, by 50%, 139% and 400% respectively (WFP 2008: 15). As food prices rose, the costs of the food subsidy programme automatically increased. Although those in middle-income groups had not purchased subsidised bread before the crisis, they began to buy cheap, subsidised bread (England 2007: 41). This increased the demand for subsidised bread and forced the population to queue for subsidised bread in shops. Around 78% of the consumers had to queue for bread over 30 minutes and 23% of them were forced to queue for over two hours (Trego 2011: 671-673). The *Financial Times* reports that, in response to the price hike, not only workers and civil servants but those who were considered privileged (such as university scholars and doctors) participated in demonstrations to demand higher wages to meet the price hike (Saleh 2008b: 11).

The government's fear that price hikes would trigger social unrest is pointed out in several newspapers. An analysis in *The Economist* suggests that, although emergency laws banned demonstrations that would threaten the social order, the price hike fuelled popular discontent and

encouraged Egyptians to participate in these demonstrations. In the summer of 2007, when the country experienced a dire shortage of drinking water, some people blocked roads and made a protest about the water shortage (a ‘revolution of the thirsty’). The price hike since 2007 worsened the situation and led to bloody clashes. The analysis concludes that this combination of reasons for popular discontent could seriously threaten the government (Anon. 2007: 45). Indeed, an analytical article in the *Financial Times* also pointed out that the price hike might destabilise society:

Although most Egyptians are too young to remember the bread riots of 1977, since then successive governments have made it a priority to support the prices of some foods to pre-empt any boiling over of popular anger.

“Of course officials are worried [about social unrest],” said Samir Radwan, an economist commissioned by the government to look into raising the minimum salary.

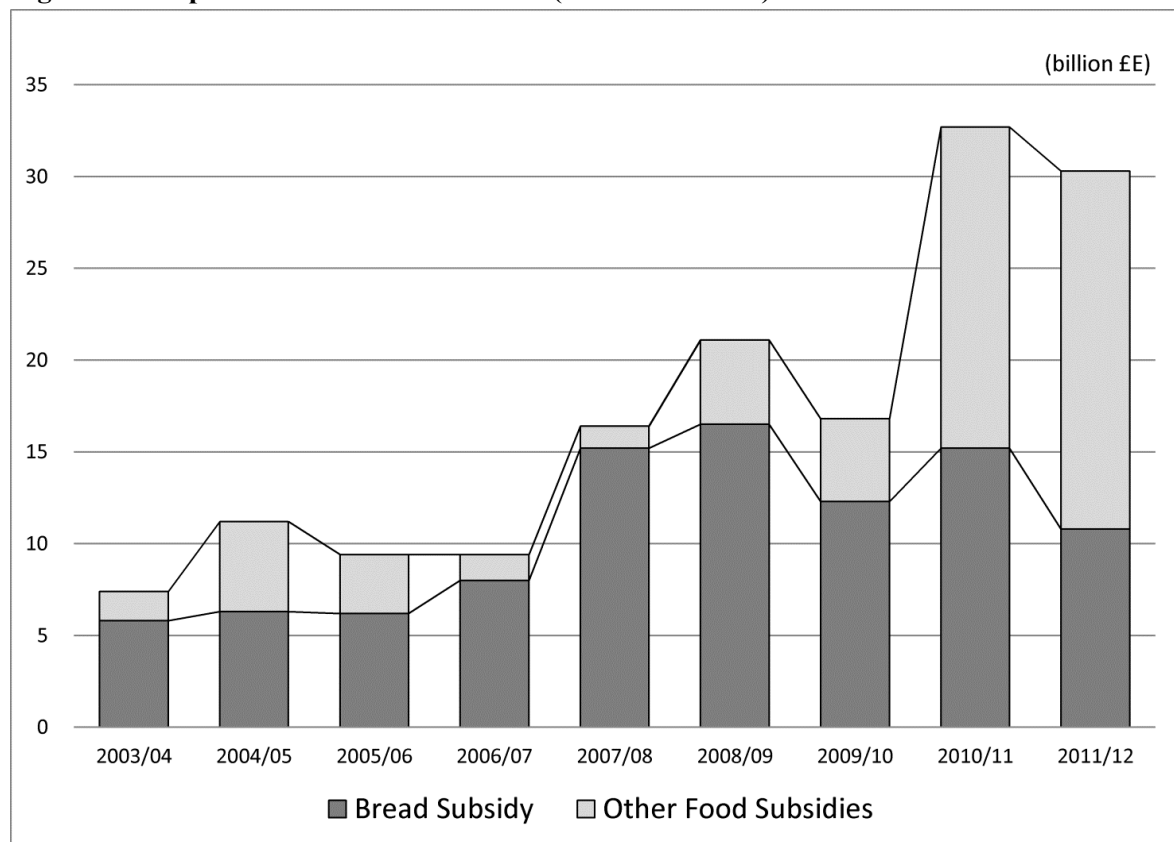
“You can judge by the number of cabinet meetings they have been holding to deal with the price rises” (Saleh 2008b: 11).

The government’s fear led to further expansion of the food subsidy programme.

In the summer of 2008 the government dealt with the food-price crisis by enlarging the programme’s coverage. For instance, the government decided to issue green ration cards to those who had been red cardholders (middle- or high-income people). Next, the government resumed the registration for a rationing system, which had been suspended in 1989. The Ministry of Social Solidarity announced that the government was going to issue ration cards to young people who had been born during the period 1988-2005. This decision increased the number of ration cardholders by more than twenty million and made the food subsidy programme even more inefficient as a poverty alleviation programme (Trego 2011: 674). These measures meant that the government had strengthened the universalist character of the programme to avoid social unrest. Moreover, the government introduced several measures to ensure sufficient food supply. First, it demanded that bakeries owned by the military should produce subsidised bread for the population. Second, it began to use kiosks as new distribution points. This measure enabled the population to access subsidised bread more easily. A new delivery service of subsidised bread was introduced so that people did not have to wait for the bread in long queues. This delivery service reduced the number of bloody, violent clashes between consumers (Arishie 2008). Third, the government reduced tariffs

on imported foodstuffs and temporary suspended rice exports (Aboulenein *et al.* 2010: 13-17; Trego 2011: 672).<sup>14</sup> These measures led to a steep increase in expenditure on the food subsidy programme (**Figure 4.6**). Expenditure on food subsidies reached £E 16.4 billion in 2007/08 and doubled in 2010/1011. At the same time, expenditure on subsidies for other foodstuffs also increased in 2010/11, accounting for more than 50% in the total expenditure on the food subsidy programme (CAPMAS 2014: 19).

**Figure 4.6: Expenditure on Food Subsidies (2003/04-2011/12)**



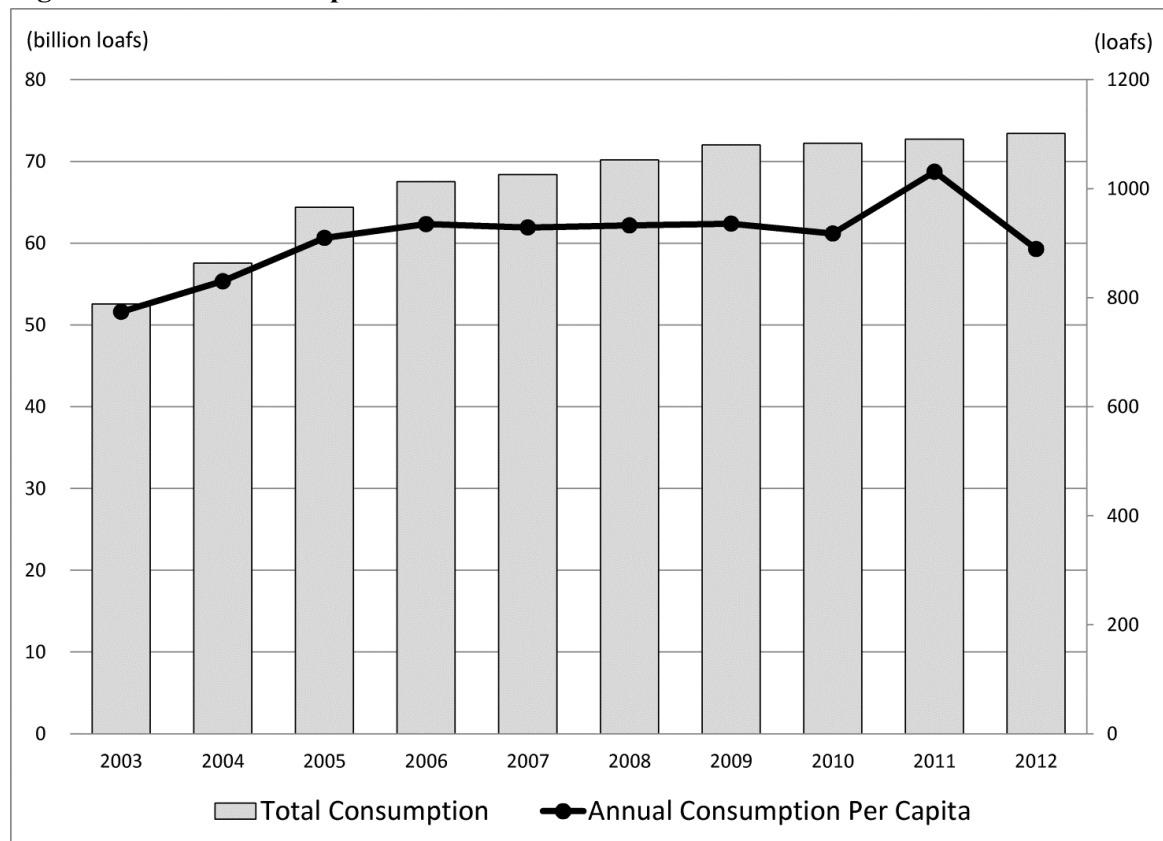
Source: CAPMAS (2014: 19), Figure 6.

Along with the government expansionary measures, citizens were now more dependent on the food subsidy programme. **Figure 4.7** indicates that the amount of annual consumption of subsidised *baladi* bread per capita gradually increased, from 774 loaves per person in 2003 to 1031 loaves per person in 2011 (CAPMAS 2014: 41). This data shows that the food price crises

<sup>14</sup> In addition to these measures, the government adopted a strategy to increase domestic agricultural products by providing subsidies to farmers in country side.

encouraged even those who had not purchased subsidised *baladi* bread to buy subsidised bread. It could be argued that this increase was caused by the universalist feature of the programme. Moreover, most Egyptians were economically vulnerable to external shocks (such as sudden price hikes) and immediately became programme beneficiaries when faced with external shocks. According to Africa Development Bank research, most of the people in the middle class are categorised as the ‘floating class’, which is the lowest subcategory of the middle class defined as a group whose daily consumption per capita is between US\$ 2 and US\$ 4, in African countries (including Egypt). Their consumption level is only slightly above the second poverty line in developing countries – US\$ 2 per person per day (Mubila & Ben Aissa 2011: 2). Their data indicates that people in the floating class accounted for 60% of the total middle-class population in Egypt (Mubila & Ben Aissa 2011: 18). Consequently, most Egyptians in the middle class purchased more *baladi* bread during the food crises.

**Figure 4.7: Total Consumption of Subsidised *Baladi* Bread**



Source: CAPMAS (2014: 41), Figure 14.

The expansion had a negative impact on the sustainability of the food subsidy programme in two areas. First, the government sacrificed various policies for the programme's expansion in terms of resource distribution. Magda Kandil (2010: 7) estimates that a global price hike would increase expenditure on food subsidies to £E16.8 million in 2009/10 and raise the proportion of food subsidies to GDP, from 1.3% in 2006/07 to 2% in 2008/09. Consequently, this expansionary strategy offset efforts at food subsidy reform introduced in the 1980s and 1990s and forced the government to implement fiscal adjustment. In 2008, the government attempted fiscal adjustment through "reduction[s] in energy subsidies (£E 7.5 billion), [an] increase in sales tax[es] on cigarettes (£E 1.3 billion), increasing development fees on vehicle licensing (£E 1.1 billion), increasing fees for use of cement raw materials (£E 1 billion), and [the] elimination of [several] income tax exemptions (£E 3.5 billion)" (MoF 2008: 5). Second, the expansionary measures damaged the cost-efficiency of the programme by distributing a larger amount of resources to non-needy households. As indicated in **Table 4.2 (A)**, the institutional expansion in the 2000s exacerbated the inefficiency of the food subsidy programme as a means of poverty alleviation. The delivery cost of ten-piastre bread, which had begun to be subsidised in 2003, was over US\$46.42 to deliver \$1.00 to the needy. **Table 4.2 (B)** shows how costly the Egyptian food subsidy programme was as a poverty alleviation programme, in comparison with the international counterparts.

#### 4-4. The Food Subsidy Programme and Path Dependence

As discussed in **Chapter 3**, although Egypt experienced structural change in the political and economic systems that had sustained the populist social welfare system, the populist feature of the social welfare system did not change because of path dependence. This tendency could be found in the case of the food subsidy programme. The Mubarak government had difficulties in implementing drastic subsidy reform. Consequently, the quality of subsidy reform in the 1990s was restricted and did not resolve the programme's shortcomings. The food subsidy programme remained inefficient as a poverty alleviation means. Although several reform plans were proposed



by the World Bank until the collapse of the Mubarak regime in 2011,<sup>15</sup> the Mubarak government could not implement these reform plans and, more importantly, maintained the universalist feature of the bread subsidy, which meant that all citizen could access subsidised bread.<sup>16</sup> Although the government spent a lot on the programme, Egyptians were not satisfied with its quality.

[In Egypt,] everyone complains about the subsidies that exist on many goods and commodities, the government more than most. These subsidies have been called a scourge on the budget, an impediment to development, and a backdoor for corruption. But apparently no one dares to do anything about them, mostly because the public backlash would be so fiery that ministers fear that they would lose their jobs if they tackled the problem seriously (Yehia 2013).

Despite the shortcomings, the Mubarak government ventured to expand the programme to lessen the possibility of social unrest. The programme's expansion offset the outcomes of the subsidy reforms in the previous two decades. The government's behaviour confirmed that the logic of the social contract was still alive as well as the need to maintain the populist food subsidy programme.

However, it should be noted that the robustness of the social contract did not necessarily deny the two hypotheses discussed in **Chapter 1. Hypothesis 1** assumes that economic liberalisation encouraged the government to reform the food subsidy programme and to rationalise it as a poverty alleviation programme. Indeed, the IMF and the World Bank exerted pressure on the Mubarak government to cut the fiscal deficit and reform the programme. The ERSAP effectively obliged the government to reduce expenditure on the programme. However, it could not encourage the government to embark on explicit subsidy reform (i.e., the rationalisation of the programme) because explicit subsidy reform would trigger social unrest and threaten the regime's survival. Instead, the government took stealthy and gradual measures to reduce expenditure on the programme. Simultaneously, it successfully objected to the devaluation of the Egyptian pound proposed by the IMF. In the 2000s, Prime Minister Nazif embarked on subsidy reform, attempting

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<sup>15</sup> See the World Bank (2010), for example.

<sup>16</sup> It should be noted that the government recently began to reform this universalist feature. In some governorates (i.e., Ismailiya, Port Said and Suez), a smart-card system was introduced in 2014. In this reform plan, the government distributes smart cards to the needy to record the amount of bread allocated to each person and to avoid the leakage of subsidised flour at bakeries. The new system is expected to save 25% of expenditure on bread subsidies (El-Fiqi 2014).

to replace food subsidies by direct cash transfer (as **Hypothesis 1** suggests). However, his attempt was overthrown by President Mubarak because his plan had a negative impact on the population, especially the vulnerable, in the face of a global food price rise in 2007. This indicated that the logic of the social contract was prioritised over the necessity of neo-liberal economic reforms, which might promote export-led economic growth.

**Hypothesis 2** assumes that the introduction of multiparty elections would be a driving force for the expansion of the programme. Multiparty elections were an important factor for institutional expansion in the short term, as revealed in **Chapter 3**. The evidence could be observed especially when food prices were high. In August 2010, for example, Gamal Mubarak (a son of President Mubarak) mentioned, in an interview on state television ahead of the 2011 presidential election, that food subsidies were an important social welfare programme which eased the burden of rising prices:

He defended the government's record in shielding Egypt's poor from volatile food prices and said the NDP would continue backing a system under which a large portion of the population receives subsidised consumer goods (Fayed 2010).

In October 2010, the Minister of Finance Youssef Boutros-Ghali also remarked: "There is no intention to decrease the subsidy for basic provisions and petroleum products" (Blair 2010). Mona El-Ghobashy (2010) analyses that the food subsidy programme was expected to work "to manage the economic turbulence and pacify the domestic arena for the upcoming elections". Their statements indicated that the food subsidy programme was exploited to win the presidential election.

However, it should be noted that this hypothesis only focused on the short-term change in the food subsidy programme, omitting the long-term effects of political structural change and populist welfare provision, as discussed in **Chapter 3**. Multiparty elections were channels for connecting the regime with the rising business class, not a means for the population to feed their views into government policies. Furthermore, long-standing welfare provision deprived the food subsidy programme of its ability to expand because of fiscal restrictions. Although the government needed

to implement drastic reforms to re-direct resources to a specific social class – the vulnerable, it would not (or could not) implement them. Consequently, the government's promises before elections were not necessarily substantial. According to an analysis in the *Al-Ahram Weekly*, most party members referred to the importance of social justice and food subsidies, ahead of the NDP's annual conference in November 2008, when food prices soared:

[NDP Secretary-General Safwat El-Sherif claimed that] the new food subsidy system – forged by both the government of Prime Minister Ahmed Nazif and senior NDP officials – had successfully contained bread shortages and brought the prices of basic foodstuffs under control.

Mustafa El-Said, NDP MP and chairman of the People's Assembly Economic Committee, claims that the ration card system ... has been instrumental in containing public anger over the price of food (Essam El-Din 2008).

As the case study in this chapter demonstrates, the government could not achieve what it promised, contrary to their discourse. It only spent heavily on an inefficient programme. This restriction was caused by the logic of the social contract, which was reinforced during the Sadat era.

## Chapter 5

### Case Study (2) – The Public Employment Programme

This chapter focuses on a second case study – the public employment programme – and analyses how it changed between the Nasser and Mubarak eras. To make the nature of the institutional change clear, first, this chapter defines the public sector and the public employment programme in Egypt by reviewing current academic literature. It addresses why the Mubarak government maintained such an inefficient programme both for the regime's survival and for the population's welfare. Although the government spent heavily on the public employment programme, it did not help improve welfare provision and government employees expressed their dissatisfaction through strikes and demonstrations against government policies. These protests showed that the public employment programme did not make the Mubarak regime popular. This chapter considers why the public employment programme was maintained despite its inefficiencies.

Second, this chapter explains the historical background (institutional change during the Nasser and Sadat eras). The Nasser government established the public employment programme, connecting it with ISI strategies and higher education policies (the job guarantee scheme). In the Sadat era, the programme was expanded during the *infitah* even though the aim of the *infitah* was to rationalise the public sector. The job guarantee scheme automatically increased the number of employees in the public sector by giving university graduates their jobs in the public sector. Moreover, the government did not reform the programme, but instead expanded public employment to compensate for an increasing income gap between the 'haves' and the 'have-nots' during the *infitah*.

Third, this chapter analyses change and continuity in the programme in the Mubarak era. It demonstrates that the government had to maintain the inefficient public sector that was expanded in the Sadat era because it failed to create new jobs in the private sector. Although it had to privatise

public enterprises to reduce financial burdens on the exchequer, privatisation was faced with significant opposition – mainly from unionists in the ETUF before the 2000s and from individuals after the 2000s. The plan nevertheless made constant progress, leading to the declining size of public enterprises. The government therefore increased the number of employees in the government sector. This increase showed that the social contract between the government and the population was still valid.

### 5-1. Public Employment as a Social Welfare Programme

To discuss the public employment programme, it is first necessary to identify the ‘public sector.’ In Egypt, the public sector consists of four categories: (1) central government, (2) local government, (3) public authorities and (4) public enterprises (Ahmed 1984: 2; Dessouki 1991: 259-260). Central government includes the general administration and public institutes, which are not independent entities and are responsible for public services, such as agricultural research and planning, higher education, and public health (Ahmed 1984: 2). Although the local government consists of 26 governorates and is administratively separate, it has little financial autonomy from central government. Public authorities “include activities such as the petroleum corporation, railways, the Suez Canal, ports, electricity and water supply” (Ahmed 1984: 2). These three are generally categorised as the government sector in government documents and statistics. The last category is public enterprises, which are usually referred to as state-owned enterprises (SOEs) and are responsible for a wide range of industrial, commercial and agricultural activities. The fourth category is called the public business sector in government documents and statistics (CAPMAS 1986-2012).

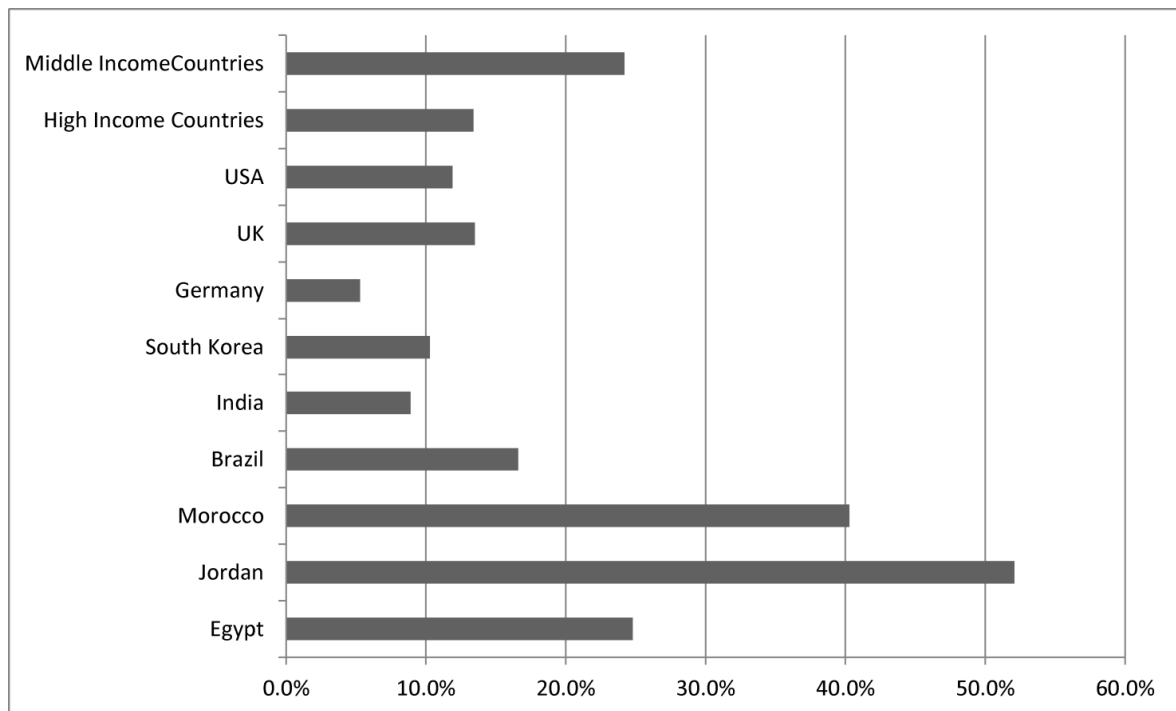
The public employment programme functions as part of the social welfare system, although the programme is not considered a social welfare programme according to conventional understanding. The government employs a large number of workers and provides them with several benefits which can be regarded as *de facto* social welfare provision. Whereas workers in the public

sector were generally protected by labour contracts, many workers in the private sector were employed without written contracts. Employers in the private sector tended to violate labour laws, “relating to insurance and dismissals, maintaining full-time permanent workers on temporary work contracts to avoid these obligations as well as to keep down their employment numbers” (Posusney 1997: 176). Consequently, the public employment programme provided workers in the public sector with an advantage in that labour laws were obeyed in the public enterprises compared to private firms. In addition to job security, the government offered public sector workers social insurance and various benefits. For instance, as accommodation for workers was lacking in urban areas, workers in public enterprises recognised the importance of the company-owned housing which they were entitled to live in (Posusney 1997: 174-176). These benefits accompanying this programme were attractive to the workers.

This programme however has several shortcomings as a social welfare programme. First, the programme is regarded as a causal factor underpinning the huge fiscal deficit (El-Wassal 2013). Second, the programme is considered to be inefficient and out-of-date by the World Bank and the IMF. These international financial institutions have criticised the programme for its inefficiency and have suggested that the Egyptian government should implement public sector reform, especially the privatisation of public enterprises (Harrigan & El-Said 2009a).

Despite the shortcomings, expenditure on the programme has accounted for a large amount of the total government expenditure. The government spent £E171 billion (approximately 25% of the total expenditure) on public-sector workers’ wages in FY2013/14 (MoF 2014). The ratio is not high, in comparison to counterparts in the MENA region, such as Jordan (52.1%) and Morocco (40.3%), but it is still higher than in other countries outside the MENA region, shown in **Figure 5.1**. The public sector is still one of the most important sectors and has accounted for approximately 40% of the country’s workforce (El-Wassal 2013: 1-2).

**Figure 5.1: Compensation of Public Employees as a Percentage of Government Expenditure in Egypt and Selected Countries (2010)**



Source: El-Wassal (2013: 8), Figure (4)

When analysing the public employment programme, a puzzle emerges. Although the government has maintained the huge size of the programme, workers in the public sector are not satisfied with their current working conditions. Since the mid-2000s, the country has experienced a significant increase in the number of strikes and sit-ins. Public sector workers have also expressed their dissatisfaction at low levels of pay. Indeed, many workers in the public sector fell under the national poverty line (Abdelhamid & El Baradei 2009: 9). This puzzle leads to a question: why did the Mubarak government maintain such an inefficient institution? The Mubarak government spent heavily on the public employment programme, but did not achieve its goal of mobilising public sector workers in support of the authoritarian regime. Instead, their low wages decreased their purchasing power and some of them resorted to collective action such as demonstrations and strikes.

## 5-2. Development of the Public Employment Programme: From Nasser to Sadat

The programme was established under the Nasser presidency and categorised as an industrial programme in the social welfare system. Although this programme aimed to provide educated youth to the public sector during the Nasser era, it led to an overstaffed public sector. President Sadat's *infitah* had a significant impact on the programme as well as the social welfare system as a whole. Although the Sadat government tried to rationalise the public sector through the *infitah*, the *infitah* had a positive feedback effect, leading to the expansion of the programme and an ongoing commitment to 'socialist' distributive justice.

### 5-2-1. The Institutional Establishment in the Nasser Era

The public employment programme was gradually developed as one of the industrial programmes in the social welfare system after the 1952 Revolution (the permissive condition for the development of the social welfare system). However, it was not expanded until the Suez crisis in 1956 (the first productive condition for the development of the social welfare system). Before the Suez crisis, the Nasser government expected the private sector to play a pivotal role in the country's industrialisation, as explained in **Chapter 2**. The public sector at that time was therefore smaller than that in the 1960s. The conflict with Britain and France encouraged the Nasser government to nationalise British and French companies. This led to the first expansion of the public sector. After this initial expansion the Nasser government nationalised other private companies around the country and dramatically expanded the public sector. At the same time, statist industrialisation increased the number of employees in the government sector as well as the public sector as a whole, as indicated in **Table 5.1**. Between 1962 and 1972, the annual growth rate was 7.5% and exceeded the annual growth rate of the national work force (2.2%) during the same period. As the number of employees in the government sector increased, the government increased the number of agencies and ministries. For example, ministries doubled from 15 to 30 between



1952 and 1970 (Waterbury 1983: 242-243).

Civil service wages ... grew at a rate well in excess of the national wage bill: for the period 1962 to 1971, the rate was 13.6 percent per annum in the civil service as opposed 8 percent per annum nationally. The civil service share in total wages rose from 28 percent to 38 percent over the same period (Waterbury 1983: 244).

**Table 5.1: The Number of Employees in the Government Sector, 1951/52-1969/70 (thousands)**

Year	1951/52	1956/57	1962/63	1964/65	1965/66	1966/67	1969/70
Number	350	454	770	891	1,035	1,036	1,200

Sources: Calculated by Author, based on Ayubi (1982: 287), Table 1 and Waterbury (1983: 242), Table 11.2.

**Table 5.2: Wages and Salaries in the Government Sector, 1951/92-1969/70 (£E thousands)**

	1951/52	1956/57	1962/63	1965/66	1969/70
(A) Expenditure on Wages	96,159	127,434	199,564	311,406	404,235
(B) Total Current Expenditure	149,422	238,029	516,857	524,197	1,658,378
(C) Percentage (A/B)	64.4%	53.5%	38.6%	59.4%	24.4%

Sources: Ayubi (1980: 250-251), Table 7 and Table 8.

Arab socialism ideologically supported the expansion, as discussed in **Chapter 2**. Although Arab socialism did not give organised labour substantial political power, it addressed the need for government partnership with organised labour and endowed it with several economic privileges related to the public employment programme. First, wages and salaries in the government sector steadily increased following the Suez Crisis and the introduction of ‘socialist measures’. **Table 5.2** indicated that expenditure on wages in the government sector drastically increased, from £E 96 million in 1951/52 to £E404 million in 1969/70, although total government expenditure also expanded at the same time. This wage increase was disproportionate to the general increase in wages. Whereas the general wages increased by approximately 67% from 1962/63 to 1969/70, wage increases in the government sector were 102% (Ayubi 1980: 250). Second, Arab socialist policies had a positive impact on labour conditions in public enterprises as well as the government sector. In 1959 the government introduced a new wage regulation scheme and created consultative

councils. The councils were expected to resolve disputes on wages between employers (public enterprises in particular) and trade unions through mediation, conciliation or compulsory arbitration. Consequently, workers' wage levels were improved because trade unions became more powerful. In 1963 the government established a unified job evaluation scheme to determine the wage levels of each employee in public enterprises, many of which were newly nationalised at the beginning of the 1960s. Under the unified job evaluation scheme, a 'cost-of-living allowance' was integrated into basic pay, which meant that workers' wages were protected (Abdel-Fadil 1980: 29-30). Moreover, the introduction of Arab socialist policies encouraged the government to create a mechanism for distributing profits in public enterprises to their employees (the profit-sharing scheme). Whereas approximately 40% of net profits were transferred to the treasury, some of which were used for collective welfare services provided by the state, 8% of the net profits were kept for employees. In this scheme, public enterprises paid less than £E 50 to an employee and 20% of this amount – £E 20 – was paid in cash. The workers' share amounted to £E 10.1 million in 1962/63 and was estimated to exceed £E 16 million in 1964/65 (Lotz 1966: 140-143).

The public employment programme in Egypt could be characterised by an institutional connection with the higher education system (the job guarantee scheme). This scheme began to guarantee public sector jobs to university graduates after the extensive nationalisation programmes in 1961-62 and was formalised by Law 14/1963. In 1964, furthermore, this scheme was extended to those who graduated from vocational secondary schools and technical institutes (Assaad 1997: 86-87). The institutional connection was part of the government strategy of organisational proliferation. According to Anoushiravan Ehteshami & Emma Murphy (1996), in less developed countries such as MENA countries, where the bourgeoisie was weak, the state's co-option of working classes and new middle classes was important for two reasons. It enabled the state to utilise their human resources for economic independence through industrialisation. At the same time, the state obtained their political support by distributing resources to them. The institutional linkage strengthened the logic of industrialisation by the state. The job guarantee scheme constantly

absorbed the youth into the state, which established new middle classes and converted them into Nasser's powerful supporters.

The programme was faced with its first crisis in the second half of the 1960s, when Egypt experienced a budget crisis because of military expenditure. Furthermore, the capacity of the public employment programme gradually reached its limit because of budgetary constraints and overstaffing. In a May-day speech in 1965, Nasser stated that the public sector was faced with difficulties and needed reform and that industrial production needed to be boosted (Anon. 1965). Nevertheless, the public employment programme continued to absorb more and more young workers into the public sector.

#### 5-2-2. The Further Institutional Expansion in the Sadat Era: the *Infitah* and the Positive Feedback Effect

The aim of the *infitah* was to maximise profits of the state by rationalising and privatising public enterprises. However, the privatisation of public enterprises was not acceptable to union activists and triggered a conflict with them in 1974. When a public-owned company, the United Wholesale Textile Trading Company (UWTTC), decided to sell two factories to a private co-operative, workers in the company refused to work for their new owner. During this conflict, lawyers hired by the Commerce Workers Federation (CWF) claimed that "the transfer would deprive them of numerous benefits associated with public sector employment, in particular periodic raises and promotions, annual vacations, and sick leave" (Posusney 1997: 178). Although the government passed Law 111/1975 the following year, labour unionists successfully defended their interests.

During the parliamentary debate, defenders of the public sector succeeded in adding an article (No. 10) limiting share sales to those public sector firms which already had some private participation, known as 'joint companies' (*sharikat mushtarikah*), except in the case of firms incurring losses which had been scheduled for elimination. ... Moreover, Article 10 specified that the state's overall share in such firms could not be reduced through the subscriptions, although the role of private shareholders in their

management could be expanded (Posusney 1997: 179).

Thus, union activists successfully prevented the Sadat government from privatising public enterprises and maintained the public employment programme.

The *infitah* superficially succeeded in the rationalisation of public enterprises. Handoussa, Nishimizu & Page (1986) argue that the productivity in some public sector industries was enhanced during the *infitah*, during which the import substitution sector experienced high productivity growth. Their research however pointed out that this sector did not experience investment in new factories and firms during the *infitah* and that its industrial capacity was established before the *infitah*. The import substitution sector experienced a low rate of capacity utilisation because of a shortage of imports before the *infitah*, but the *infitah* eased state controls and liberalised trade and foreign exchange controls. Furthermore, the *infitah* led to increased demand for import substitution sector products. Their research suggests that the productivity growth during the *infitah* was unsustainable because the improvement in productivity did not accompany the innovation of technology in public enterprises.

Two causal factors created a positive feedback mechanism, preventing the rationalisation of the public sector and excessively expanding public employment: (1) the job guarantee scheme and (2) an increase in external resources. The first factor – the job guarantee scheme encouraged Egyptians, those in the new middle class in particular, to invest in education. In the Nasser era, the government reformed the education system, giving the population more opportunities to gain an education. Consequently, more children enrolled in elementary schools after the 1952 Revolution. The first group that benefitted from Nasser's education reform was referred to as the 'Nasser years cohort'. In the late 1960s and 1970s, those in this group entered universities and became eligible for the job guarantee scheme. The fact that university tuition fees were abolished in 1963 made it more rational for Egyptians to invest for their children in higher education. They encouraged their children to enter universities and obtain their jobs in the public sector. (Richards 1992: 8). Indeed, university enrolments increased approximately 3.5 times in 1971-1984 (Richards 1992: ii). Moreover, a wage gap between the public and private sectors attracted university graduates to the

public sector. According to Posusney (1997: 175), “Workers in the public sector [public enterprises] earned about 1.5 times the wages of those in the private sector, with the difference being more pronounced when only manufacturing workers are considered”. Although Law 24/1972 stipulated that large firms in the private sector should offer the same minimum wages as those in the public sector, the wage gaps between the public and private sectors became wider (Posusney 1997: 176).

**Table 5.3: Applicants for Employment in the Public Sector, Compared with Requested Appointments and Graduates by Level of Education**

Graduation Year	Graduates (A)	Requested (B)	Appointments (C)	(B)/(A) (%)	(C)/(B) (%)	(A)/(C) (%)
(thousands)						
<u>Higher Education</u>						
1976	38.2	29.8	19.0	78.0%	63.8%	49.7%
1977	43.6	39.5	20.8	90.6%	52.7%	47.7%
1978	N/A	N/A	N/A	N/A	N/A	N/A
1979	56.5	43.8	25.1	77.5%	57.3%	44.4%
1980	56.5	63.2	28.9	111.9%	45.7%	51.2%
1981	60.2	55.0	25.5	91.4%	46.4%	42.4%
1982	64.1	43.4	30.2	67.7%	69.6%	47.1%
1983	N/A	45.8	25.3	N/A	55.2%	N/A
<u>Intermediate Education</u>						
1976	102.0	52.6	68.9	51.6%	131.0%	67.5%
1977	N/A	N/A	N/A	N/A	N/A	N/A
1978	127.2	68.2	81.7	53.6%	119.8%	64.2%
1979	128.8	82.1	85.1	63.7%	103.7%	66.1%
1980	143.9	75.9	82.0	52.7%	108.0%	57.0%
1981	154.6	75.0	93.9	48.5%	125.2%	60.7%
1982	N/A	44.4	114.0	N/A	256.8%	N/A

Source: Fergany (1991: 39), Table 3

The second factor was an increase in external resources (see also **Chapter 2**), which enabled the government to fund this programme. According to Fergany (1991: 36-40), more than 60% of graduates sought jobs in the public sector in the second half of the 1970s. Although the programme seemed less attractive for graduates of intermediate schools than for university graduates,

approximately half of graduates of intermediate schools also applied for the programme during the same period (see **Table 5.3**). At the same time, this data shows that the government failed to create alternative job opportunities for the youth other than public employment. Furthermore, an increase in external resources enabled the government to meet the increasing demand for higher education by constructing new universities, such as Tanta University (in 1972), Mansoura University (in 1972), Zagazig University (in 1974), Helwan University (in 1975), El-Minya University (in 1976), Minufiyya University (in 1976) and Suez Canal University (in 1976). The construction of these new universities created a spiral of expanding public employment by increasing the supply of labour keen to enter the public sector (Richards 1992: 9).

However, the institutional linkage between public employment and higher education reached a stalemate. First, the institutional linkage led to a sharp increase in demand for education and low quality of elementary education. Although the government was able to meet the demand by increasing the number of educational institutes, the increase was not matched by an improvement in quality. The Egyptian education system had several shortcomings, such as overcrowding, poor facilities and poorly trained teachers. These shortcomings resulted in poor quality graduates who gain high marks in rote-memorised examinations (Richards 1992: 15). The institutional distortion was exacerbated by the government strategy of mobilising the new educated middle class through providing them with public sector job opportunities. The distortion has had a significant impact on the imbalance of spending on schools and higher education. Despite the fact that only 6% of students at all levels enrolled in higher education, universities received approximately one-third of total education spending in 1999. This made a marked contrast with East Asian countries, where only 15% of education spending was distributed to universities (Richards & Waterbury 2008: 120-121). Consequently, the public education system in Egypt became less beneficial to people on low incomes. While wealthier parents tended to enrol their children in high-quality private schools, low income parents were forced to enrol their children in low-quality public schools. Many parents hired private tutors to compensate for the poor public education system and to enhance the chances

of students gaining places of universities, especially in prestigious faculties such as medicine. Low income parents, however, could not afford to hire tutors. Thus, the public education system tended to reproduce the class structure (Richards 1992: 20).

This problem was particularly serious in universities. Although the government increased the number of university students, it did not improve university facilities and staff working conditions. Teaching staff often needed to commute from Cairo or Alexandria to regional campuses. Nonetheless, their wages remained low compared to their work. Generally speaking, a full professor earned only £E 120 per month and had to supplement his/her income by selling lecture notes and books to his/her students (Waterbury 1983: 240). University facilities also remained poor, as the government did not invest in new facilities or refurbish existing classrooms:

Cairo University, which was designed for 35,000 students, now handles about 90,000. Its engineering faculty was designed for 700 students but in 1977 had 9,000; its medical faculty should accommodate 300 but deals with 1,700. It is possible for an Egyptian medical student to complete his medical studies without ever having seen a cadaver. Again at Cairo University teacher-student ratios range between 1/70 and 1/666 (Waterbury 1983: 238-239).

The low quality of university education directly influenced the quality of the work carried out in the public sector.

Second, the institutional linkage led to a waste of human resources and increasing unemployment. Although, in practice, the government suspended the job guarantee scheme in the 1970s, it did not mean that the scheme was abolished. The Ministry of Manpower and Vocational Training asked public sector institutions to hire graduates, but the requests from the institutions did not match the number of applicants. The ratio reached 5:1 by 1981 (Handoussa & El-Oraby 2004: 4). Consequently, the waiting time increased from 10 months to more than seven years in 1992. To obtain a qualification for the job guarantee, graduates must register as unemployed at the Ministry of Labour and declare that they are unemployed every twelve months. As Egypt did not have a comprehensive unemployment insurance scheme, only young people who obtained their families' support could remain unemployed. The number of unemployed university graduates drastically

increased, from less than 5,500 in 1960 to around 57,000 in 1976 and approximately 236,000 in 1986 (Richards 1992: 16-17). As pointed out by Alan Richards (1992: 17), “Gunnar Myrdal’s telling remark, ‘Unemployment is a bourgeois luxury’ certainly applies to Egypt”.

Third, the institutional linkage led to the hypertrophy of the unproductive public sector.<sup>1</sup> Although the government exempted public enterprises from the job guarantee scheme in 1978, they were still inefficient. In the 1978 reform, Law 48/1978 gave managers more flexibility over recruitment and employment. Public enterprises, however, were reluctant to dismiss excessive ‘unproductive employees’, such as administrative staff, because such dismissal might lead to strikes and demonstrations. Whereas skilled workers accounted for approximately 80% of the total employees in the private sector, almost half of the employees in the public sector worked in unproductive sectors such as administration offices in 1978.

To take a particular example, in textiles, clothing and leather, skilled workers accounted for 93 per cent of employment in the private sector, whereas the percentage was only 64 per cent in the public sector. Skilled workers totalled only 43 per cent of employment in the paper industry in the public sector (private sector 78 per cent), 40 per cent in the food sector and 31 per cent in chemicals (Handoussa 1983: 9).

This was partly because increasing demand for higher education was mainly covered by an increase in supply in non-vocational fields, especially law and commerce, as indicated **Table 5.4**. These fields were “the receptacles for those whose scores precluded entry to more prestigious faculties” (Waterbury 1983: 237). Students in these fields tended to flood into unproductive public sector jobs, which created unproductive jobs. What made it worse was that wages in the public sector increased regardless of performance. For instance, wages rose by 20% in 1979 alone. Average earnings in the public sector in 1984/85 became 3.6 times higher than those of 1977 (Zaytoun 1991: 225). Consequently, the public sector (including government bureaucracies and public enterprises)

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<sup>1</sup> It should be noted that the job guarantee scheme could only partly explain the hypertrophy of the unproductive public sector. The government has employed a number of people with low literacy skills from elementary schools. “In the category ‘other clerical staff’, 23 per cent have only primary schooling, 16 per cent less than an intermediate degree, 3.5 per cent have a higher education that is below university level (diploma) and only 1.3 per cent a university degree or its equivalent. In the category ‘government executive’, 23 per cent have primary schooling, 16 per cent less than an intermediate education, 38 per cent have a diploma and only 19 per cent a university degree or its equivalent” (Handoussa 1983: 8).



continued to hire unproductive but costly workers.

**Table 5.4: Distribution of Students in Institutes of Higher Education by Specialisation, 1968/69 to 1976/77**

Specialisation	1968/69		1976/77	
	Number	Percentage	Number	Percentage
Science	67,359	38.6%	148,695	32.8%
Arts	55,705	31.9%	270,441	59.6%
Others	51,349	29.4%	34,500	7.6%
Total	174,413	100.0%	453,636	100.0%

Source: Waterbury (1983: 238), Table 11.1.

Increasing labour costs were compensated for by two measures. The first measure was an increase in the number of temporary-contract workers. According to Mohaya Zaytoun (1991: 229-230), not only public enterprises but government bureaucracies hire workers on temporary labour contracts, who are less costly than permanent workers. **Table 5.5** indicates that temporary workers became important section of the workforce in many public enterprises, accounting for approximately 20% of the total workforce. The construction sector was particularly dependent on temporary workers (8.68% of the total workforces). As shown in the table, the average earnings of temporary workers were much lower than those of permanent workers (except within the land reclamation sector). It should be noted that the category of 'temporary workers' includes various types of work, from foreign experts with high salaries to occasional workers with considerably lower wages. A significant income gap between permanent and temporary workers could be found in the cotton sector, in which many agricultural workers were employed as temporary workers for short periods. The same tendency could be observed in employment in the government sector. As the government sector did not opt out from the job guarantee scheme at that time, in order to cut labour costs, it needed more non-permanent workers than public enterprises.

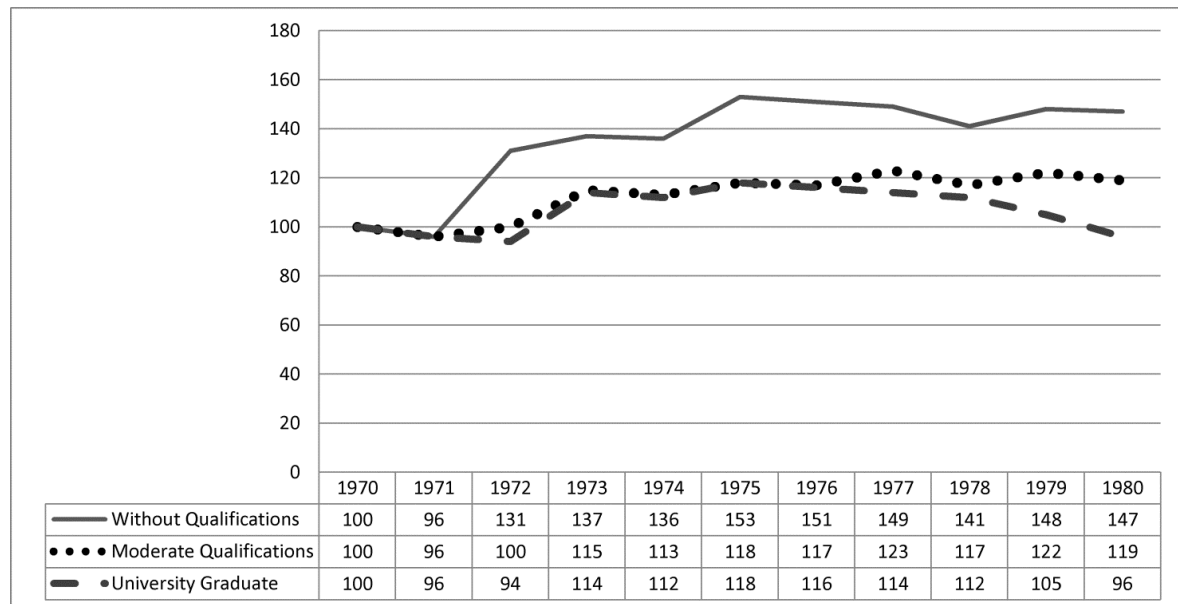
**Table 5.5: Average Earnings and Number of Workers in Some Public Enterprises**

	A	B	C	D	E	F
	Temporary Workers	Total Workers	Temporary Workers (%)	Temporary Average Earnings	Permanent Average Earnings	D/E Percentage
Cotton (1985/86)	4,225	19,125	22.1%	£315	£3,064	10.3%
Construction (1982/83)	68,241	77,037	88.6%	£1,647	£2,857	57.6%
Land Reclamation (1985/86)	2,334	11,737	19.9%	£2,200	£2,158	101.9%
Electricity (1984/85)	2,323	7,503	31.0%	£1,306	£2,125	61.5%
Irrigation (1985/86)	2,449	11,691	20.9%	£1,617	£2,852	56.7%
Food Industry (1980-81)	15,469	92,646	16.7%	£394	£847	46.5%

Source: Zaytoun (1991: 230), Table 73.

The second measure was controlling wage increases. As the government sector was under more pressure to hire graduates after 1978, it needed to control workers' wages at the same time. Gerald Starr (1983) reveals a trend of annual wages for government employees in the 1970s by using "the index calculated from the annual budgets and the one calculated from the Ministry of Planning estimates of average annual wages for 'social services'" (Starr 1983: 8). According to his calculations, government wage policies favoured the workers with lower educational qualifications. **Figure 5.2** shows monthly wages for government employees beginning work in 1970. By 1980 single workers with university degrees had seen their wages drop to 96% of those in 1970 in spite of their promotions, while workers without qualifications received 1.5 times more wages as a result of their promotions in the 1970s (Starr 1983: 6-10).

**Figure 5.2: Calculated Monthly Wages (including cost-of-living allowances) for Government Employees Entering Employment in 1970**



Source: Starr (1983: 9), Table 5.

The Sadat government did not rise to the challenge of tackling the problems. Instead, it perpetrated rather than reformed the public employment programme, especially after the food riots in 1977 (discussed in **Chapter 4**). For example, President Sadat remarked that the government promised an increase in public sector wages at the May-Day rally in 1981 (Anon. 1981b). The only way of increasing employment was to export workers to other Arab countries, particularly the Persian Gulf countries, Iraq and Libya. Egyptian migration to other Arab countries was characterised by a high ratio of professional occupations (such as engineers, teachers and pharmacists), “constituting 28.8% of 1968 and 36.6% of 1973, as compared to production workers (mainly construction workers) who constituted 20.8% and 24.4% respectively and agricultural workers constituting no more than 0.9% of the total flow in 1968 and 3.4% in 1973” (Amin & Awany 1985: 99). This data shows that many workers with university degrees left the country to find work and sent back remittances. Migration eased the pressure on the government to reform the labour market. However, this dependency on migration proved unsustainable by the end of the 1980s. A sharp decline in oil prices reduced employment opportunities in Gulf countries. Also, the end of the Iran-Iraq war encouraged Iraqi workers to return to the labour market in Gulf countries

and decreased demand for Egyptian workers. Accordingly, the unemployment rate increased in Egypt (El-Naggar 2009: 41-42).

### 5-3. Economic Liberalisation and the Institutional Robustness in the Mubarak Era

The Gulf War was a turning point for the public employment programme as well as the social welfare system as a whole. The war revealed that the existing labour market structure was not sustainable any longer for two reasons. First, the war destroyed opportunities to export human resources to Arab countries, reducing the demand for Egyptian migrants in Iraq and Kuwait. Consequently, many Egyptian migrant workers had to return to the country and were unemployed (El-Naggar 2009: 42). Second, the government could not continue absorbing young workers through public employment because this programme was regarded as an inefficient programme that would impose a heavy burden on the exchequer by the IMF. The IMF suggested that the government should implement public sector reform, especially privatisation of public enterprises (Momani 2005: 45).

At the same time, the war provided the country with an opportunity to accept a structural adjustment reform package and financial aid (not only from the United States but Paris Club members and the IMF), as mentioned in **Chapter 3**. Such financial aid enabled the Mubarak government to implement economic reform whilst minimising social instability through social safety nets. Finally, the Egyptian government accepted the implementation of a structural adjustment programme, known as the ERSAP. The public employment programme was a typical example of wasted and inefficient social expenditure. Although public enterprises suffered from deficits, which were covered by the state, they employed a number of redundant workers. Also, as explained above, the government sector also absorbed a great number of university graduates despite the fact that financial austerity was supposed to curb employment in the government sector. In order to deal with the fiscal deficits, the government needed to reform the huge public sector

(not only public enterprises but government bureaucracies).

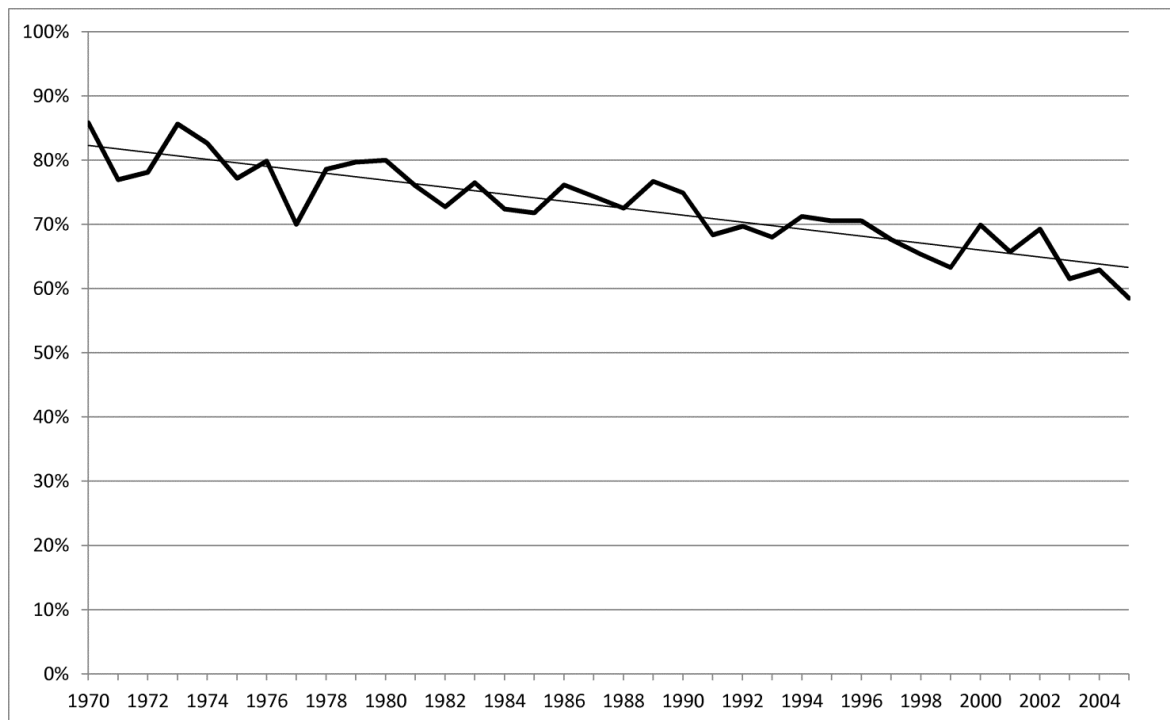
Nevertheless, the public employment programme survived the Mubarak era, although it shrank in size. To explain this path-dependent change, first, this chapter explains that the Mubarak government did not succeed in creating new jobs in the private sector. Consequently, the public employment programme became the 'last resort' for absorbing the workforce even during economic liberalisation. Second, it analyses employment in public enterprises. Although the government attempted to privatise public enterprises, this was hindered by organised labour. In the 2000s, the power of organised labour declined. However, the government was faced with collective action that was not controlled by official trade unions. Although the government successfully privatised several public enterprises up until the 2000s, it could not sell all public enterprises. Third, it focuses on employment in the government sector. As the number of employees in public enterprises declined, the government increased employees in the government sector. This indicated that the government maintained the programme to avoid political instability. However, their wage levels were unsatisfactory because of inflation. This caused the political instability that the government was trying to minimise.

### 5-3-1. The Egyptian Labour Market in the Era of Economic Liberalisation

Youth exclusion from the labour market was remarkable. First, the informal sector became more important. As the ratio of informal jobs to new jobs in the labour market has increased, new participants in the labour market have unwillingly given up trying for jobs in the formal sector. The Egypt Labor Market Panel Survey (ELMPS) in 2006 data indicates that the youth found it more difficult to get a permanent job than before. As indicated in **Figure 5.3**, more than 80% of new participants in the labour market gained a permanent job in 1970s. The ratio has declined since then. In 2006, 41% of new participants worked in non-permanent roles, which included temporary work in the formal sector, or seasonal or casual work (irregular labour) (ERF & CAPMAS 2007). As they could not afford to stay unemployed, they were forced into insecurity. The *Egypt Human*

*Development Report 2010* analyses that unemployment rates significantly declined between 2006 and 2009, not because there was increasing number of jobs in the labour market, but because the deterioration of working conditions discouraged people to seek jobs in the labour market (UNDP & INP 2010: 149).

**Figure 5.3: A Ratio of Young Workers Who Started Their Jobs in the Formal Sector (1970-2005)**



Source: ERF & CAPMAS (2007)

Second, the percentage of young unemployed people also increased. According to the *Egypt Human Development Report 2010*, unemployment rates were high especially for secondary and university graduates. More than 25% of university graduates were unemployed in 2008/09. “Unemployment was more pronounced among the poor, where 29% of poor educated persons of age 18-29 were unemployed and one out of four educated non poor was unemployed” (UNDP & INP 2010: 82). The report indicates that more than 80% of the unemployed were under the age of 29 and 82% of them had no previous work experience.

The unemployment rate for youth [aged] 15-24 in Egypt in 2007 was 24.5%. This

compares to world average of 11.9% in 2007 and an average of 23.8% for North Africa, the region with the highest unemployment rates in the world (UNDP & INP 2010: 148).

Although the Mubarak government promoted economic liberalisation to further economic growth, it failed to utilise human resources in the country for two main reasons. The first reason was a problem on the supply side. The government could not create adequate systems for vocational training. Although there were vocational training centres for youth in Egypt, the centres were disaggregated among several ministries, such as the Ministries of Trade and Industry, Social Solidarity, Housing, Manpower and Emigration, Agriculture, Health, and Culture. At the same time, the Ministry of Education provided basic technical and vocational education to youth (approximately 1,500 technical and vocational schools) and the Ministry of Higher Education was responsible for 47 Middle Technical Institutes and Technical Colleges. Furthermore, training courses offered by these ministries were out-of-date and not well-organised. Their programmes lacked clear standards in the curriculums and did not catch up with ongoing technological development. The trainers lacked adequate vocational training skills (UNDP & INP 2010: 166). These shortcomings were highlighted in the *Egypt Human Development Report 2005* (UNDP & INP 2005: 103).

The second reason was a problem on the demand side. The government failed to create enough private sector jobs enough to absorb young newcomers to the labour market. The government did implement several active labour market programmes. The example was small and middle enterprise (SME) development programmes. SME development is important for further economic growth in Egypt because SMEs create more than 70% of new jobs in the country. The Small Enterprise Development Organisation (SEDO), for example, was founded under the SFD to provide credit and business support services to SMEs. The SEDO provided £E 1.4 billion for SMEs, assisted over 70,000 enterprises and created estimated 210,000 permanent and 70,000 temporary jobs. However, the programmes were not successful in active labour market policies because the failure rate of these enterprises was high (approximately 80%). Moreover, these programmes are not sustainable

because they are dependent on external funding (De Gobbi & Nesporova 2005: 33-44).

Another example of an active labour market programme was the Public Works Programme, which is implemented by the SFD. This programme aimed to construct or improve infrastructure (such as roads, sewage and water supply) in rural areas and in deprived urban areas. Simultaneously, this programme aimed to absorb unemployed workers. The programme successfully created more than 6,000 permanent jobs and more than 10,000 temporary jobs between 1994 and 2000. The Shorouk Programme, which was directly launched by the government, also created approximately 59,000 permanent and 123,000 temporary jobs during the same period (El-Megharbel 2008: 189-190). Most of the jobs, however, were temporary. It could be asserted that the programmes did not contribute to an increase in permanent jobs.

These government policy failures created the 'waithood' phenomenon, which can be defined as "a period during which they simply wait for their lives to begin, most notably by queuing for long periods of unemployment during which they live with parents and are financially unable to pursue marriage or home ownership" (UNDP & INP 2010: 3). To ease popular discontent, the government maintained the huge size of the public sector through the public employment programme.

It might be true that the ruling elite also recognised the importance of public sector reform, as addressed in the *Egypt Human Development Report 2005*, which was published by the INP, a government research institute, and the UNPD:

There is a consensus that civil service reform, a reassessment of the number of employees in government and their reallocation from administrative to productive jobs in the delivery of services are urgently needed. Furthermore, redundant labor has led to low marginal productivity and overlapping job responsibilities, which raises the cost of conducting business to producers and investors, a situation that is aggravated by civil servants' low real wages which in turn encourages corruption. In addition, the current incentive and promotion structures do not effectively motivate workers, based as they are on seniority and personal connections rather than merit, performance, and productivity (UNDP & INP 2005: 103).

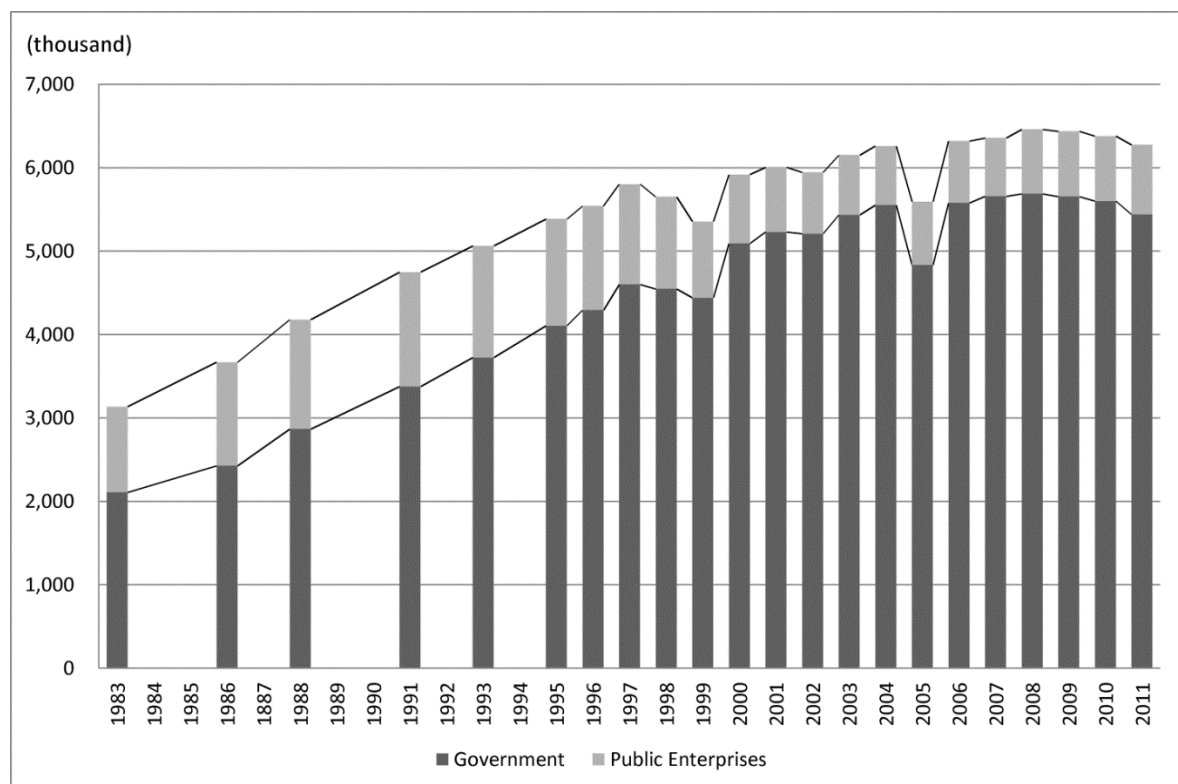
Nonetheless, the government had no choice but to maintain the public employment programme



because it failed to create jobs in the private sector.

The number of beneficiaries of the public employment programme in the 1990s and 2000s rose despite the needs to downsize the public sector. **Figure 5.4** indicates that the number of workers in the public sector (i.e., the government sector and public enterprises) doubled, from approximately 3.1 million in 1983 to 6.3 million in 2011. The number of workers in public enterprises declined because of privatisation. Public enterprises downsized, decreasing their employees by approximately 200,000. In contrast, the number of workers in the government sector in 2011 was 2.5 times as large as that in 1983. The government attempted to absorb new participants in the labour market by expanding the government sector (CAPMAS 1986-2012).

**Figure 5.4: The Number of Employees in the Public Sector (1983-2011)**



Source: CAPMAS (1986-2012)

### 5-3-2. Employment in Public Enterprises

Public sector reform, especially the privatisation of public enterprises, became part of the ERSAP. Overstaffed public enterprises were obstacles to public sector reform. In 1994 many positions in public enterprises were overstaffed as follows: senior managers (25%), office workers in the administrative development units (47%) and production supervisors (62%). The SFD reported that half of the workers in public enterprises were redundant. In addition, there was a lack of management skill. Managers were recruited from the state bureaucracy and higher ranks of army, and judged according to their loyalty and seniority. Therefore, their professional skills were not taken into consideration when they were appointed. Patronage networks also helped people without managerial training gain roles on the executive boards of public enterprises (Weiss & Wurzel 1998: 106).

As discussed in **Chapter 3**, political structures changed in the Mubarak era to pro-capitalist. Partial political liberalisation favoured businessmen who benefitted from the *infatih* by furthering their own interests and influencing public policy in their favour. Also, the introduction of multiparty elections enabled big businessmen to seek seats in parliament. At the same time, the structural changes weakened the political influence of organised labour, although it was still an official partner of the authoritarian regime. In the 1990s the government attempted to exert further control over organised labour through several laws. Moreover, the government controlled organised labour by co-opting union leaders into the ruling structure. This measure aimed to prevent workers from policy making in the NDP.

Although Egyptian trade unions were marginalised, they still had enough political power to resist the government's unpopular privatisation plan. According to a survey of six thousand public sector workers, conducted by the *Al-Arabi* newspaper in 1996, "91.2 percent of workers were opposed to privatization. Of 8.8 percent who support the program, 80.6 percent were against the sale of public sector companies to foreigners and only 35.5 percent were willing to accept the sale of their own enterprise" (Paczynska 2009: 187).

Agnieska Paczynska (2009) claims that Egyptian trade unions successfully influenced policy debates and the process of privatisation by comparing the country with three other country cases: Poland, Mexico and the Czech Republic. Whereas trade unions in Egypt and Poland succeeded in shaping government policies, their counterparts in Mexico and the Czech Republic had little impact on the policy debates. In Paczynska's theoretical framework, Egyptian trade unions were successful not only because they had resources, such as legal prerogatives and financial autonomy, but because the ruling party had failed to control its subsidiary trade unions fully. The nature of Egyptian corporatism obliged the government to make more concessions with organised labour during structural adjustment. Weiss & Wurzel (1998: 106) point out similar feature regarding workers in Egyptian public enterprises:

The work force is capable of being militant if it suspects that any decisions are being taken to reduce its benefits. In fact, it is difficult for management to make any kind of positive changes, and the work force currently has effective control of the business to the detriment of both the business and the very work force whose interests the militants are trying to protect.

Although the government attempted to prevent the workers' 'true' voices from coming to the surface by co-opting union leaders into the ruling party, it failed and had to take their views on privatisation into account.

The Mubarak government was faced with its first challenge from organised labour in 1991, when the government proposed a legal framework for privatisation, or Law 203/1991. Unionists were opposed to the law because it would lead to drastic public sector restructuring and change the Egyptian labour market. To deal with their claims, the government held several meetings with union representatives, during which it made concessions. Public-enterprise workers obtained not only guarantees against mass layoffs, but also financial benefits, such as additional social insurance coverage and retention of profit-sharing. Moreover, the government promised to consult trade unions regarding any future decisions that might change public enterprises and to compensate any workers harmed by the reform (Paczynska 2009: 170-171). As a result, this law was amended by unionists in the ETUF and the privatisation process was scaled back. The World Bank and the IMF

were unsatisfied with the government's insistence that it had no intention of firing employees working for public enterprises. This decision made it more difficult to resolve the problem of excess labour in these enterprises (Paczynska 2009: 172). The IMF and the World Bank, therefore, ratcheted up the pressure on the Mubarak government in 1992. "The IMF postponed the final review for the stand-by loan originally planned for December 1992, a condition for debt relief by the Paris Club. Only after a positive IMF evaluation in March 1993 did the World Bank agree to disburse the second tranche of the structural adjustment loan originally scheduled for June 1992" (Weiss & Wurzel 1998: 121). The government, nonetheless, decided to postpone the privatisation process, for example, with the excuse of the uncertainty over new ministers and the forthcoming presidential elections.<sup>2</sup> The government agreed with the IMF that the government would sell 22 of 314 companies under Law 203/1991 by the end of 1993, with assets of LE 910 million. The government however sold only two bottling plants (El-Nasr Bottling and Egyptian Bottling). Moreover, the government promised that the privatised plants would not dismiss employees. In 1993 the government postponed the privatisation process three times (Weiss & Wurzel 1998: 122). Other donors were also disappointed at the slow progress. In June 1994 the US Embassy in Cairo stated in a newspaper: "A demonstration of renewed government commitment to the reform program is necessary to stimulate private sector interest in the Egyptian economy and to create a climate which encourages economic growth" (Weiss & Wurzel 1998: 123).

The second challenge by organised labour was resistance to the new labour code, which was key to the success of the privatisation plan. For successful privatisation of such unprofitable public enterprises, their new owners needed to dismiss a number of employees. From the viewpoint of private employers, however, existing labour laws excessively protected employees and severely restricted flexibility in the management of companies. Private investors expected that the new labour code would deregulate dismissal rules. "The law [the old labour code] stipulated that workers, once hired, could be fired only under certain conditions, specifically if 'the worker had

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<sup>2</sup> For example, "when a Saudi investor offered to purchase part or all of the Suez Cement Company no decision was made. The sales of El-Nasr Bottling and Egyptian Bottling were not finalised for the same reasons" (Weiss & Wurzel 1998: 135).

been finally sentenced for crime or misdemeanor involving dishonesty and immorality” (Paczynska 2009: 173). The old labour code also prevented public-enterprise managers from laying them off. Therefore, the government drew up a revised labour code (Weiss & Wurzel 1998: 122). In response, trade unionists claimed that the new code should allow workers to strike because strikes had been forbidden since the 1950s. However, the government rejected their claim because of fears of strikes turning into social unrest and revolt. Therefore, although the law was first proposed in 1993, organised labour continued to prevent the law from passing through Parliament. The stalemate continued for ten years after 1993 (Paczynska 2009: 173-179).

Consequently, the government had to take other measures to tackle the problem of unprofitable public enterprises. Although it recognised the necessity of laying off redundant workers in loss-making public enterprises, the lack of the new labour code made layoffs impossible. The government therefore attempted to create a voluntary retirement scheme. It organised a committee, consisting of the Minister of Labour, representatives of the holding companies and ETUF's representatives, in January 1997. Negotiations in the committee however resulted in stalemate because of two issues: the level of compensation and the character of this programme (whether it was voluntary or compulsory). The negotiations reached a compromise in May 1997, but the scheme had several critical problems. For instance, the SFD was criticised for not adequately supporting those who retired from public enterprises under this scheme. In mid-July 1998 labour activists distributed a leaflet to workers in a public enterprise, Helwan Iron and Steel. The leaflet claimed that the early retirement plan was irrational because the workers who retired early would receive lower pension benefits than if they continued to work until retirement age. The leaflet persuaded the workers to reject the early retirement scheme. Consequently, the privatisation process remained sluggish and patchy (Paczynska 2009: 179-185).

The political influence of organised labour declined as political structures became more and more pro-capitalist. Until the mid-2000s organised labour successfully resisted privatisation, as Paczynska argues. She argues that the historical relationship between the ruling parties and trade

unions had a significant impact on the privatisation process regardless of the polity, whether democratic or authoritarian. In Egypt, “despite growing political repression, organized labor succeeded in modifying the privatization program during the design phase, shaped other pieces of legislation directly affecting the pace of divestures, and significantly slowed the implementation of the public sector restructuring program” (Paczynska 2009: 7). However, the fact that the new labour code was finally enacted in 2003 revealed the declining political power of unions. Although the ETUF succeeded in postponing the enactment of the new labour code, it was ultimately forced to agree to it. While the new code still provided that the ETUF was the sole national centre of Egyptian trade unions, it regulated a ‘temporary contract’, which weakened the political power of the ETUF. Workers on temporary contracts were not eligible to participate in trade unions. As public enterprises no longer needed to employ new workers on permanent contracts, they regularly hired them on temporary contracts. Accordingly, the number of workers on temporary contracts exceeded that of workers on permanent contracts in some public enterprises. In some work places, the labour local committees were not able to represent a majority of the workers. As the ETUF was based on political support from formal workers, an increase in the number of temporary-contract workers led to the erosion of its base (Solidarity Center 2010: 28-29).

Furthermore, with the appointment of Ahmed Nazif as Prime Minister in 2004, the country experienced further economic liberalisation. Faced with a second wave of privatisation, the national centre (the ETUF) gradually made more concessions with the government. Joel Beinin (2009b) highlights those examples of workers’ collective action since the mid-2000s. The first case was a struggle at a public enterprise, the ESCO Spinning Company in Qalyub (north of Cairo). By 2005 the company managed to reduce the workforce to 3,500 by combining a hiring freeze with an early retirement scheme. In October 2004 employees working at Qalyub spinning mill went on strike because they saw an announcement that the mill would be sold to a private investor (Beinin 2009b: 78).

ESCO workers believed that they and the broader public were the real owners of the enterprise, not the state managers. Gamal Sha‘ban, a skilled worker with twenty-three

years seniority asked, “With what right was the sale [of this mill] conducted?” Many ESCO workers had twenty to thirty years’ service and believed that this entitled them to retain their jobs rather than be replaced by new workers (Beinin 2009b: 78).

The NDP negotiated with the strike leaders and agreed to offer “the strikers seasonal contracts guaranteeing them all the benefits given to workers under the new unified labour law [Law 12/2003], LE 10,000 per worker in lieu of an early retirement package and wage arrears for the last three months” (Rady 2005).

The second case was an industrial strike at in the Misr Spinning and Weaving Company in Mahalla al-Kubra in December 2006. Prime Minister Nazif declared that the government would raise the annual bonus for public sector workers, from E£100 to two months’ salary in March 2006. This declaration pleased the workers because 1984 was the last time their annual bonuses had been raised. However, the result was disappointing. In December public enterprises provided the employees with only E£100, or more precisely E£89 after tax deductions. On 7 December 2006 thousands of workers started to protest in the front of the factory. The police were reluctant to suppress the protest because of the number of participants. Faced with so many protestors, government officials decided to offer a 45-day bonus. Also, the government promised that the government would not privatise the company and that, when the company made more than E£60 million in annual profits, 10% of the profits would be distributed to the employees. After this protest, the leaders started a campaign to kick out local union officials who had been opposed to the protest because union activists believed that they were controlled by the security services. More than 13,000 workers supported the campaign and signed a petition for the official’s impeachment. The petition was rejected by the ETUF because it would lose control over independent trade unions and threaten the corporatist principle that the state (the ruling party, in particular) should control all trade unions. This movement shed light on how workers lost trust in the ability of the national centre to protect their rights (Beinin 2009b: 79-83).

The third case was a strike in Mahalla al-Kubra in September 2007. This strike occurred at the same company as the second case – the Misr Spinning and Weaving Company. The workers

resorted to strikes twice in one year. The second protest was more militant than the first one. The protest occurred as the company abandoned promises made after the first protest in December 2006. The protestors claimed that although it made approximately £E 200 million in profit in 2007/08, the company did not provide enough bonuses to its workers. It only paid a 20-day bonus. According to their assertion, the profits were equivalent to 150 days' pay. Finally, the workers won at least a 130-day bonus after a six-day strike. Moreover, the workers were given the right to negotiate directly with government representatives, including ETUF chief Husayn Mugawir, bypassing the official trade-union committee (Beinin 2009b: 83-86). In the 2000s the Mubarak government suffered from increasing numbers of workers' collective action that was not authorised by the national centre despite an increase in their wages. Their collective action damaged the centralised structure of trade unions. So the government had to make concessions to them to keep the corporatist structure and to avoid the new locally-based leadership from organising movements against the government.

It should be noted that the fact that the privatisation plan was unpopular among the populace as well as public sector workers obliged the government to hold back from drastic privatisation. This unpopularity was related to the political structural changes in the Mubarak era, explained in **Chapter 3**. In crony capitalism, the ruling elites exploited economic policy, including privatisation, as a tool to maximise economic rents. Whereas, this strategy strengthened the informal connections between the government and big business, many Egyptians believed that such neo-liberal economic policy was corrupt. They linked the word of 'privatisation' to the word 'corruption, such as selling off public enterprises to government cronies and foreigners at 'bargain-basement prices'. To improve people's perceptions of privatisation, therefore, the NDP announced that all citizens (over the age of 21) would be entitled to receive a share certificate to show ownership of public enterprises. The Minister of Investment, Mahmoud Moheiddin stated:

Once they have received the [Certificate] they will have the right to sell it to a number of banks or investment funds or other institutions. ... Or they will have the right to hold on to it until registration has been completed and it could be traded on the stock exchange (Saleh 2008a: 10).



This demonstrates that the government recognised that privatisation could trigger social unrest and therefore provided substantial incentives to citizens to go along with it.

To summarise, although the privatisation plan made gradual and constant progress, the Mubarak government did not drastically implement it for two reasons. First, employees in public enterprises organised opposition movements against privatisation. Before the mid-2000s strong opposition also came from the inside of the regime, especially the ETUF. As it constituted part of the authoritarian regime, it was difficult to exclude them from decision making. Consequently, it hesitated to privatise public enterprises because labour activists within the regime might initiate anti-privatisation movements. After the mid-2000s the government confronted unauthorised collective action, as the ETUF's control over individual trade unions had declined. As their living conditions worsened, workers in public enterprises resorted to collective action although the actions were not authorised by the central committee of labour federations. The Mubarak government and the ETUF therefore had to negotiate directly with them to resolve the problems. Second, the privatisation plan was unpopular among the populace because privatisation was thought to strengthen corrupt relationships between the ruling elites and big businessmen. Consequently, the government had to take measures to improve popular perceptions of privatisation. These two reasons made the government reluctant to implement drastic reform, leading to survival of the large public sector despite fiscal constraints.

### 5-3-3. Employment in the Government

Jobs in the government sector were still attractive to young graduates because of the job security and higher wages. When the government announced that the government would exclude graduates also employed in the private sector from this scheme in 1992, many workers in the private sector resigned in order to keep their entitlement to government sector jobs (World Bank 2004: 35). Moreover, when the government prepared five employment and training programmes for public employment, approximately 4.4 million people, a quarter of the labour force, rushed to

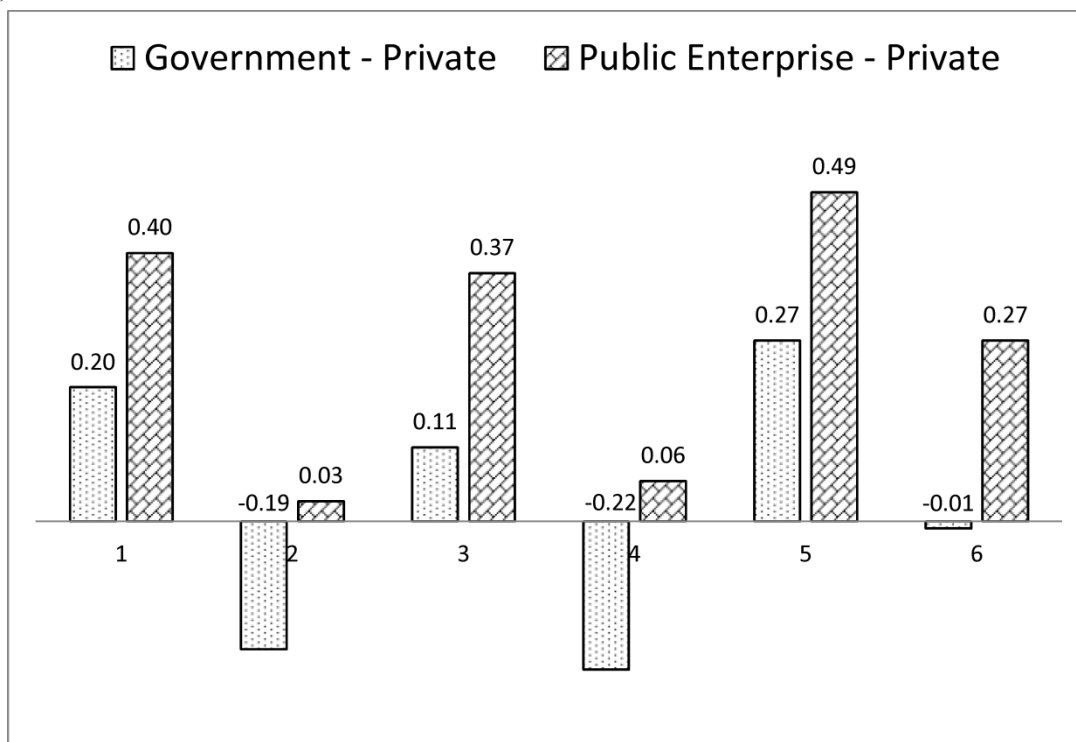
submit a job application, although many of them were already employed in the private sector (Radwan 2002: 14). These cases indicate that the youth in the country still preferred public employment to employment in the private sector because of the more attractive wages and job security in the public sector.

Tarek El-Ghamrawy & Ziad Amer (2011) reveal that wages in the public sector (including the government and public enterprises) were higher than those in the private sector and that the gap continued to increase from 2002 to 2007, using data in the CAPMAS wage bulletin. Their research furthermore confirms the same trend by using the 2006 ELMPS, which includes data on individual wages. This survey also reveals the difference not only between the public and the private sectors, but between the government and public enterprises. Whereas workers in the domestic private sector earn £E2.6 per hour on average, their counterparts in the government and public enterprises earn £E4.3 and £E4.7 respectively. Although the wages were lower than those in joint-venture and foreign companies, their wages were still better than those of workers in the domestic private sector. In addition to wages, the public sector provides more substantial job security to the workers than those in the private sector. Whereas only 24.9% of workers in the private sector were formal workers (defined as workers having a legal job contract), 97.6% of government workers and 94.0% of workers in public enterprises were categorised as formal workers. Informal workers are forced to work in insecure conditions and tend not to enjoy various wage and non-wage benefits that formal workers receive (El-Ghamrawy & Amer 2011: 4-6).

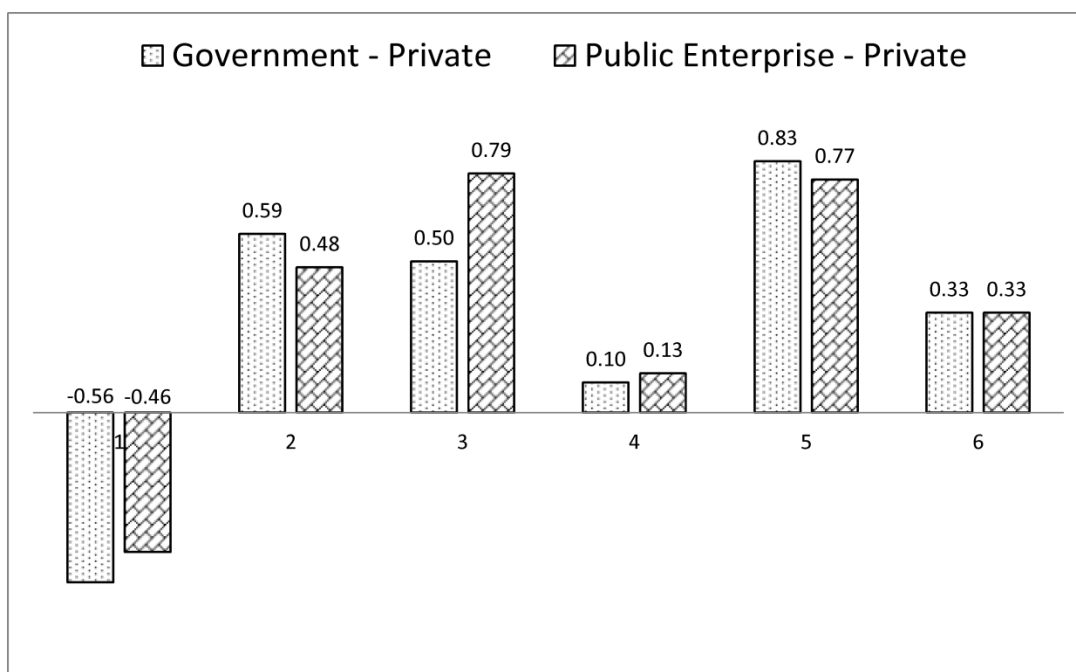
However, it should be noted that their conclusion needs further consideration. Mona Said (2007) reached a different conclusion from El-Ghamrawy & Amer (2011), using the same data – the 2006 ELMPS. Crude estimates indicate that male workers both in government and public enterprises improved their relative position between 1988 and 2006. However, analysis of gender differences reveals a different conclusion. In comparison with male workers in the private sector, male government workers did not enjoy substantial wage premium, while female workers in the government and public enterprises received a wage premium (**Figure 5.5**).

**Figure 5.5: Crude and Corrected Public-Private Wage Differentials**

(A) Male



(B) Female



1 – Crude Gap in 1988

2 – Corrected Gap in 1988

3 – Crude Gap in 1998

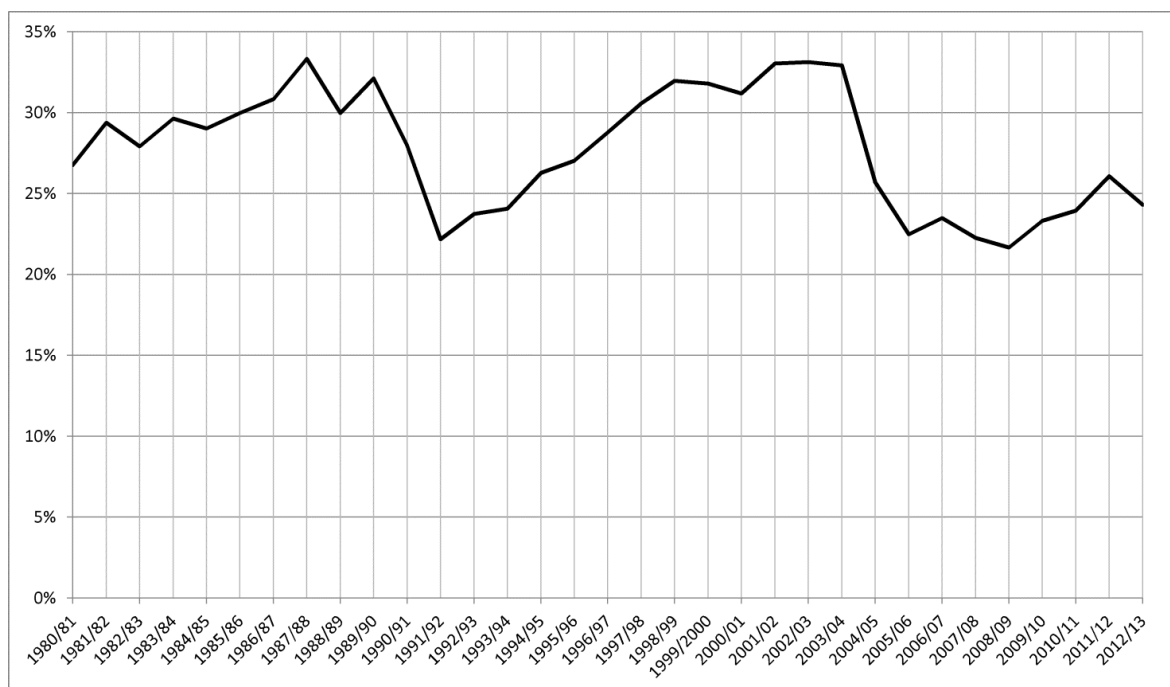
4 – Corrected Gap in 1998

5 – Crude Gap in 2006

6 – Corrected Gap in 2006

Source: Said (2007), Table 4.

**Figure 5.6: Ratio of Government Wages to Total and Current Public Expenditure**



Note: After 2004/05, this research uses total expenditure instead of current expenditure because the government stopped to divide the expenditure into two – current and capital expenditure.

Sources: CBE (1983-2002/03) and CBE (2004/05-2012/13).

Therefore, the Mubarak government still attempted to employ more young people than necessary. For example, the General Authority for Free Zones and Investment employed more than 1,400 workers, although half of them were estimated to be underemployed (Handoussa & El-Oraby 2004). Nonetheless, the number of government employees had increased even during the ERSAP (see also **Figure 5.4**) because the government needed to absorb youth into the government sector to compensate for the lack of sufficient jobs in the private sector. The Mubarak government therefore suffered from a heavy financial burden of the programme and needed to reduce the fiscal deficit. In the budget for FY 1990/91, the government estimated that, whereas expenditure on subsidies and pensions would increase by 73.7% and 35.2% respectively, that on wages of government employees would grow by 14.2% (below the annual inflation rate) (CBE 1990/91a: 39). It however suffered from increasing expenditure on employees' wages. Budget implementation during the first seven-month indicated that expenditure on the wages rose by 16.4%, reaching £E 3.5 billion. The ERSAP increased citizens' living costs and, accordingly, forced the government to compensate for

the increase to government employees (£E 900 million). At the same time, the government had to meet the increase in the number of government employees (CBE 1990/91b: 41-44). Since FY 1991/92, the ratio had gradually increased until FY 2001/02. The government continued to spend more than a quarter of the total current expenditure on the wages of government employees. This data indicates that the government could not cut overall expenditure on wages (**Figure 5.6**).

However, the financial restriction had made the government unable to raise government wages in accordance with inflation rate. When the real wage in 1999 was calculated by comparing consumer prices in 1999 with those in 1964, it was considerably lower than the real wage in 1964 (**Table 5.6**). Furthermore, the government attempted to control the government wage bill in another way:

Incentives and overtime payments in the public sector are used as a way of raising the average wage rather than as a reward for individual performance. Promotion in the government and public sector depends essentially on seniority (through the system of wage increments), and also on budget constraints, which may restrict the number of positions allocated to various employment grades every year. In this case, the employee receives the same wage (the grade-wage limit) until budget conditions allow for promotion (Handoussa & El-Oraby 2004: 7).

Accordingly, the current level of real wages was not satisfactory for workers in the government sector. By using a survey targeting government employees, Doha Abdelhamid & Laila El Baradei (2009: 18-19) reveal that 82% of the respondents were not satisfied with their salary and that 97% believed their total salary was below the market value. In addition, the survey illustrates to what extent the respondents were satisfied with their bonus and incentives. 75% did not think that their bonuses and incentives were determined by clear criteria; 98% did not think that increases to bonuses and incentives kept up with inflation rates and rising prices; and 87% were dissatisfied with the President's decision in May 2008 regarding wage increases. Government employees also experienced deteriorating working conditions in the 2000s although their wage levels were higher than those in the private sector.

**Table 5.6: Real Government Wages in 1999**

	1964	1999 in 1964 Prices	1999 in 1978 Prices
Grade	Salary Range	Salary Range	Salary Range
First Under Secretary	1800-2200	73.51	179.44
Under Secretary	1400-1800	59.3	144.77
Director General	1200-1500	42.36-65.06	103.41-158.83
Grade 1		32.19-58.96	78.59-143.94
Grade 2	876-1440	23.72-53.88	57.91-131.53
Grade 3	684-1200	16.27-45.41	39.71-110.85
Grade 4	540-960	11.47-34.23	22.99-83.55
Grade 5	420-780	12.20-26.09	29.78-63.70
Grade 6	330-600	11.86-21.01	28.95-51.29
Grade 7	240-480	—	—
Grade 8	180-360	—	—
Grade 9	144-300	—	—
Grade 10	108-288	—	—
Grade 11	84-180	—	—
Grade 12	60-84	—	—

Source: Handoussa & El-Oraby (2004: 8), Table 4.

Indeed, government employees resorted to collective action because of their deteriorating working conditions. For instance, municipal real estate tax collectors established an independent trade union. They were employed by local municipalities and their salary was considerably lower than their counterparts directly employed by the Ministry of Finance. In December 2007 approximately 3,000 workers from the municipal real estate tax collecting service (and their family members) carried out an 11-day sit-in at the front of the ministry and other government offices in Cairo. As a result of their actions, the Minister of Finance, Yusif Butros Ghali, promised to give them a bonus equivalent to two months pay. They also won a dramatic wage hike of approximately 325%, which made their wages equivalent to their counterparts in the General Tax Authority. This protest was not supported by the General Union of Bank, Insurance and Finance Employees (GUBIFE), an ETUF affiliate. Most of the GUBIFE-affiliated local union committees of municipal tax collectors did not support the protests because they were illegal. For this reason the tax

collectors had to organise their own strike committee. Other government employees also resorted to strikes. In February and March 2009 administrative workers in public education institutions organised strikes in several local schools and education authorities. On 9 March 2009 they demonstrated in front of parliament in order to gain the same pay increases as teachers in public schools. In May 2009 postal workers went on six-day strikes to achieve pay increases. The postal workers were dissatisfied with the considerable wage gap between workers in the Egyptian Telecommunications Company (ETC) and the postal service, although both sets of workers were employed by the same ministry. Postal workers' basic wages had not increased in five years (Solidarity Center 2010: 31-34). These cases indicate that even government employees, whose working conditions were much better than their counterparts in the private sector, were forced to resort to collective action because of their deteriorating living standards in the 2000s.

A survey conducted by Abdelhamid & El Baradei (2009) demonstrates that workers in the government sector did not earn adequate wages. 76% of the respondents could not save. In response to a question about whether their total government salary covered their total needs, 98% answered 'disagree' or 'to a certain extent disagree'. The next question asked if their monthly wages covered their basic needs. 83% chose 'disagree', 44% chose 'to a certain extent disagree'. 80% of them did not receive sufficient monthly wages to purchase foodstuffs for themselves and their family members. The survey moreover reveals that 39% of the respondents had other sources of income. 41.3% of these workers were financially supported by family members, 19% earned from their properties and real estate, 14.3% had another job, and 14.3% borrowed money.<sup>3</sup> The survey also elicits information about their government job salary as a percentage of their total income. 16% stated that government pay accounted for 70-90% of their total income; 22% stated that government pay accounted for 40-60%; and 7% stated that their government pay accounted for

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<sup>3</sup> It should be noted that the percentage (39%) should be carefully interpreted. "The percentage may be more than that as not all respondents may have felt safe enough, or willing enough to declare such information to the interviewers, lest they get themselves in unwarranted troubles. As noted earlier, because of the sensitivity of the issue of having a second job, many refused to specify what type of job and very few specified what type of sundry sources of income they had" (Abdelhamid & El Baradei 2009: 20). It means that more government employees might depend on a variety of income generating opportunities.

20-30%. Their average ratio of the government pay to their total income was approximately 80% (Abdelhamid & El Baradei 2009: 18-20).

In summary, the government drew back from implementing drastic reforms and maintained a large and overstaffed bureaucracy. However, as it did not have sufficient resources to pay civil servants, their wages were limited and working conditions deteriorated. Although the number of workers in public enterprises declined as a result of privatisation, the government absorbed a large number of youth into the government sector. However, poor working conditions fuelled their collective action, such as strikes and the formation of independent trade unions. These protests undermined the ETUF's control of all subsidiary trade unions. In the long term, the public employment programme was not able to function as a tool for mobilising government employees, despite the fact that the government continued to spend large amounts of money on the programme. Although the government's behaviour was seemingly irrational in the long term, it revealed that the social contract was still important politically.

#### 5-4. The Public Employment Programme and Path Dependence

Like the food subsidy programme featured in the previous chapter, the public employment programme was influenced by path dependence and did not change the populist features established during the Nasser era and reinforced during the Sadat era. In the Nasser era, this programme was established to support industrialisation. The Nasser government established the job guarantee scheme for two purposes. First, it attempted to help the industrialisation project by supplying the public sector with high-quality human resources (i.e., educated graduates). Second, it aimed to obtain the political support of the new middle class by guaranteeing public sector jobs to university graduates. At the same time, this scheme created a positive feedback mechanism. In the Sadat era, the mechanism expanded the size of the public sector and placed burdens on the exchequer. The government did not change the scheme because an increase in external resources enabled the government to expand the programme easily. As a result of the expansion, the public



sector however absorbed more youth workers than it needed. The government had to take measures to control wages: (1) an increase in the number of temporary-contract workers and (2) limited wage increases. Although the government adopted such *ad hoc* strategies, it did not implement drastic reforms of the public sector. Instead, the government regularly promised public sector workers wage increases after the 1977 food riots and maintained an inefficient bureaucracy.

In the Mubarak era, the public employment programme survived even though the country experienced structural change in the political and economic systems that sustained the existing social welfare system (see **Chapter 3**). Additionally, IMF pressure to drastically reform the public sector (such as privatisation of public sector and restructuring of overstuffed bureaucracy) failed to bring about drastic reform. Employment in public enterprises gradually shrunk as privatisation gained pace. However, the pace of privatisation was slow for two reasons: (1) opposition movements against the privatisation and (2) the unpopularity of the plan among the populace. Before the mid-2000s, the ETUF successfully rejected government proposals related to privatisation. After the mid-2000s, the government was faced with unauthorised collective action that was not controlled by the ETUF. Moreover, the privatisation plan was unpopular among the populace because of perceptions of corrupt relationships between the ruling elites and big business. As public enterprises were privatised, the government attempted to absorb graduates by further expanding the overstuffed government sector. However, it did not have sufficient resources to pay to civil servants and it therefore had to control their wages. This measure worsened the working conditions of government-sector workers, led to their dissatisfaction and fuelled their collective action against the government. The government behaviour indicated that the logic of the social contract was still alive.

The robustness of the social contract was obvious from the fact that the Mubarak government regarded May Day speeches as one of the most important opportunities for displaying the government's commitment to workers' affairs, such as their working conditions, as a successor of the Nasser regime (Anon. 1981a). On 1 May 1981 President Sadat declared that the government

would raise monthly wages for public sector employees from £E 20 to £E 25 (Anon. 1981b). As these wage increase were motivated by inflation, the government addressed the linkage between price hikes and public sector wage increases (Anon. 1981d). More recently, “May Day 2008, for example, saw a 30 percent increase in public sector worker salaries, in part to compensate for higher world food prices”, as Lisa Blaydes (2011: 80) remarks. This was also reported in the *New York Times*:

During a speech Tuesday, the eve of May Day, to the official Trade Union Federation in Cairo, [President] Mubarak said, “We had talked about a 15 percent raise, but decided on 30 percent. The government will have to find the resources” (Anon. 2008).

The evidence indicates that the social contract, reinforced during the Sadat era, forced the Mubarak government to continue its active commitment to employment in the public sector, despite its fiscal restrictions.

However, it should be noted that the robustness of the social contract did not necessarily disprove the two hypotheses discussed in **Chapter 1. Hypothesis 1** assumes that economic liberalisation encourages governments to implement public sector reform and privatisation. However, it did not lead to the restructuring of the public sector in Egypt. Rather, the development of crony capitalism prevented such drastic reform. The government developed economic policies that furthered its own interests and rewarded its supporters (such as big businessmen). Radical reform might decrease the resources channelled to the elites and threaten the survival of the authoritarian regime. Moreover, privatisation triggered workers’ collective action that often destabilised the social order. Consequently, the government was reluctant to implement radical economic reforms. Even during structural adjustment, the government rejected the IMF’s proposals for drastic economic reforms and postponed privatisation. The government’s behaviour indicated that maintaining political stability was prioritised over economic reform and pressure from international aid donors, such as the IMF, the World Bank and the United States.

**Hypothesis 2** addresses that the idea that multiparty elections encourage governments to mobilise public sector workers by increasing their wages and bonus. This hypothesis was correct in

the short term. Although the public employment programme imposed a heavy burden on the exchequer, it was necessary to raise the wages of public sector employees ahead of elections. Before the parliamentary election in 1984, for example, the Mubarak government promised employees in the government and public enterprises that it would increase their monthly wages by £E 5.0 (Anon. 1984a). Such decisions were often announced before parliamentary elections. Lisa Blaydes (2011) demonstrates that the government did not announce wage raises in years when there were no elections. She also provides the readers with several narratives about the Mubarak government's promises:

In 2000, public sector companies and ministries announced bonuses for their employees prior to parliamentary elections. The year 2005 – another parliamentary election year – saw a number of announcements regarding increases to public sector bonuses as the election season approached. For example, an annual bonus of 15 percent of salary for all public sector employees and retirees was announced, and the government promised that, after five years, the bonus amount would become part of the base salary. In addition, Minister of Finance Yusuf Butrus-Ghali also announced a 15 percent exceptional bonus (*'ilawa khassa*) that would benefit 1.8 million public sector employees [*italics in original*] (Blaydes 2011: 82).

Moreover, elections effectively delayed the process of privatisation. Ahead of the presidential election in 2011, the government announced that it would indefinitely postpone the privatisation programme in May 2010 in response to protests triggered by unemployment and high inflation (El-Ghobashy 2010). The logic of multiparty elections, addressed in **Hypothesis 2**, strengthened path dependence by making the government pull back from drastically reforming the public sector.

However, this hypothesis did not pay attention to the long-term effect of the change. Several factors – maintaining social order and winning elections – forced the Mubarak government to increase expenditure on this programme. This choice led to the erosion of this programme. The leading characters shifted from organised labour to the business class, which exploited elections as channels to strengthen relationships in the political arena. The government gradually regarded organised labour as a potential challenger and intensified control over it. However, the government did not have adequate resources to conciliate organised labour. Economic compensation through

wage raises was inadequate for most workers in the public sector. As the government continued to increase the number of low-paid, underemployed workers, the workers' wage rises did not keep up with inflation rate. Thus, these workers suffered from economic difficulties despite the fact that the Mubarak government constantly promised them wage raises.

The path-dependent change in the public employment programme has had a significant impact even after the collapse of the Mubarak regime. Widespread poor working conditions in the public sector sparked off a number of labour protests and strikes, which indirectly weakened the Mubarak regime and led to the Arab Spring in 2011. The newly elected Morsi government could not resolve the public sector problems. Instead, it attempted to re-nationalise six land reclamation companies, which had been privatised during the Mubarak presidency (Anon. 2011). Indeed, the amount of expenditure on public employment increased during the Morsi era. Now the new government is faced with a dilemma: whereas public sector workers demand an increase in their wages, wage increases are likely to impose a heavy burden on the budget (El-Wassal 2013; Omar & Abdel Latif 2011). The new governments – whether the democratically-elected Morsi government or the Sisi government – are faced with the same dilemma as the Mubarak government. Unless the government resolves the dilemma, it will remain difficult to implement radical reforms in the public sector and the public employment programme.

## Chapter 6

### The Egyptian Social Welfare System and Its Implications for Theories of Authoritarian Social Welfare

This chapter discusses the implications of social welfare development in Egypt for (1) historical institutionalism and (2) welfare-state studies. To achieve this goal, first, the chapter discusses the importance of informal institutions under authoritarian rule as well as in democracies by considering why the hypotheses (indicated in **Chapter 1**) cannot always explain the development of the social welfare system in the Mubarak era. It demonstrates that an informal institution – the populist social contract – altered the preferences of political leaders and their survival strategies, which led to a difference between what these two hypotheses anticipated and the actual changes that occurred in the Egyptian social welfare system (as revealed in the previous chapters). Also, the chapter demonstrates that the original timing and sequence of change in Egyptian political and economic structures made the institutional legacy critical for change in the social welfare system during the Mubarak era.

Second, this chapter discusses implications for welfare-state studies. As the existing literature on the welfare state focuses primarily on democratic cases (the ‘democratic bias’), it excludes authoritarian cases (like Egypt) from the analysis. The present thesis overcomes such bias and reveals that the pattern of social welfare development in Egypt is distinct from that in Western countries and newly democratised countries in Latin America, Eastern Europe and East Asia. Also, this chapter focuses on the concept of ‘equifinality’, a term which means that there are multiple causal paths leading to the same outcome. Most scholars in the field of historical institutionalism assume that the development of social welfare systems creates beneficiaries and interest groups that exert pressure on governments. According to the conventional understanding, this process results in path dependence. However, the Egyptian case lacked the conditions that would lead to such path

dependence. As Egypt is an authoritarian country, it lacked an open political arena that would enable interest groups to influence the government. Nevertheless, the Mubarak government chose to maintain the inefficient social welfare system. In other words, the Egyptian case indicates a different logic of path dependence in the development of social welfare systems. The Mubarak government was bound by the populist social contract, which was established in the Nasser era and reinforced in the Sadat era.

## 6-1. Implications for Historical Institutionalism

One of the theoretical implications for historical institutionalism is that, different from what rational-choice institutionalists assume, informal institutions play an important role under authoritarian rule as well as in democracies. In the Egyptian case, an informal institution of the ‘social contract’ prevailed over predicted causal mechanisms (**Hypothesis 1** and **Hypothesis 2**). **Hypothesis 1** assumes that economic liberalisation turns social welfare systems into effective instruments for poverty alleviation. Economic liberalisation and drastic social welfare reform are proposed by international donors such as the IMF, the World Bank and the United States. As there are fewer obstacles to reform than in democracies, political leaders can easily rationalise social welfare systems in authoritarian regimes. **Hypothesis 2** assumes that political liberalisation (and the introduction of quasi-competitive elections, in particular) encourages authoritarian leaders to exploit social welfare systems as their ‘machine’ for targeting specific groups (or social strata) with generous welfare provision, which ensures that they win quasi-competitive elections.

Despite the fact that the country experienced dramatic changes to the political and economic structures that had been the basis of the Egyptian social welfare system since the Nasser era, the social welfare system maintained its populist features, unlike the predictions made in the two hypotheses above. The economic structure in Egypt changed in a wave of economic liberalisation (from *etatism* to an open economy) during the Mubarak era. The Mubarak government embarked on structural adjustment in the 1990s and adopted further economic liberalisation policies in the

2000s under the leadership of Prime Minister Nazif and Gamal Mubarak (a son of President Hosni Mubarak). This economic liberalisation policy led to crony capitalism. As the economic structure changed, the political structure in turn altered its features. The Mubarak regime shifted its ruling coalition from pro-labour to pro-crony capitalist. It co-opted the business elite, who increased their wealth in the *infitah* and the period of economic liberalisation, into the ruling party (the NDP) and government. The Mubarak government also pursued a developmental state, prioritising economic growth over income distribution. In contrast to the business elites, organised labour gradually became an obstacle to economic reform, although it was still an official partner of the regime (see **Chapter 3**).

Dramatic change in the political and economic structures, however, strengthened the logic of the social contract, which was consolidated by a dramatic increase in social expenditure during the Sadat era, and led to the continuation of the populist social welfare system. Social deprivation caused by the political and economic structural changes obliged the Mubarak government to maintain the existing social welfare system. While the fiscal deficit prevented the government from further expanding the system, the discourse of the social contract (and distributive justice, in particular), which had been strengthened in the Sadat era, made it difficult for the government to concentrate its resources on poverty alleviation by reforming social welfare programmes. Two cases discussed in this thesis – (1) food subsidies and (2) public employment – showed that the logic of the ‘social contract’ had a significant impact on the development of individual social welfare programmes.

**Food Subsidies:** Although the Mubarak government successfully cut expenditure on the food subsidy programme in the 1990s, the logic of the ‘social contract’ was revealed by food crises in the 2000s. In the 1990s, the government struck a balance between the IMF’s demands and popular expectations. The IMF suggested that the Egyptian government should rationalise and reduce expenditure on this programme. At the same time, the IMF encouraged the government to implement the devaluation of the currency and the elimination of price control measures. However,

as Egyptians expected the government to provide foodstuffs at a reasonable price, which was regarded as part of the social contract, the IMF proposals threatened the social order. The government, therefore, adopted implicit measures to cut expenditure on food subsidies, thereby avoiding drastic subsidy reform. Although the government was put under pressure to rationalise complex exchange rates, it only reluctantly accepted the proposal little by little because currency devaluation would trigger commodity price rises. In the 2000s the food subsidy programme was drastically expanded as a result of two steep rises in food prices. The government utilised the programme as a tool to ease the discontent of the population and to avoid social unrest, as with the 1977 food riots. The government's behaviour indicated that food security was a critical issue for the regime's survival (see **Chapter 4**).

**Public Employment:** Like the food subsidy programme, the public employment programme did not change its populist features. In the Mubarak era, the IMF encouraged the government to drastically reform the public sector (such as the privatisation of the public sector and the restructuring of overstuffed bureaucracy). Despite such pressure, however, drastic reforms were not implemented. Although employment in public enterprises gradually shrunk, the pace of privatisation was slow because of (1) opposition movement against the privatisation plan and (2) unpopularity of the plan among the populace. Moreover, the government attempted to absorb university graduates by expanding the overstuffed government sector because privatisation led to a decline in the number of workers in public enterprises. Due to fiscal restrictions, however, the government lacked the resources to raise the wages of workers in the government sector. Such measures did not resolve their economic difficulties. Poor working conditions led to their dissatisfaction and fuelled their collective action against the government (see **Chapter 5**).

Another implication for historical institutionalism is the importance of timing and sequences. Although the informal institutional legacy – the populist social contract – made a difference between what the two hypotheses anticipated and the actual changes in the Egyptian social welfare system, the timing and sequence of change in Egyptian political and economic structures made the



institutional legacy more critical for path dependence in the social welfare system during the Mubarak era, as historical institutionalism demonstrates. As Charles Tilly (1984: 14) remarks, “‘*when* things happen within a sequence affects *how* they happen’” [italics in original]. Paul Pierson (2004: 64) also addresses the importance of the temporal ordering of events or processes in analysing the historical development of institutions:

Initial steps in a particular direction may encourage further movement along the same path. Over time, “roads not chosen” may become increasingly distant, increasingly unreachable alternatives. Relatively modest perturbations at early stages may have a large influence on these processes. In many cases, the significance of early events or processes in the sequence may be amplified, while that of later events or processes is dampened. Thus, *when* a particular event or process occurs in a sequence will make a big difference [italics in original].

In Egypt’s case, the following sequence of events after Arab socialism played an important role in path-dependent change, in contrast to the predictions in the two hypotheses. The events were (1) an increase in external resources in the 1970s, (2) the absence of drastic political change (Mubarak’s succession following the Sadat regime) and (3) a decline in external resources.

The first key event was an increase in external resources in the 1970s. In the late 1960s President Gamal Abdel Nasser recognised that his economic policy had failed and had to be revised. His successor, Anwar al-Sadat, embarked on the revision – the *infitah*. However, this economic policy increased the income gap between the ‘haves’ and the ‘have-nots’. At the time, an increase in external resources characterised the country as a ‘semi-rentier’ state:

[In Egypt,] it is estimated that about 45 per cent of its GDP is represented by exogenous ... elements in the form of oil revenues, workers’ remittances, foreign aid, Suez Canal revenue and tourist expenditure. It is also to be noticed that most of these revenues accrue directly to the state or the government. The epithet of semi-rentier state is, thus, not far-fetched (Beblawi 1987: 393).

This feature encouraged the Sadat government to compensate the ‘have-nots’ by expanding populist welfare provision, as the compensation strategy to the ‘have-nots’ was an easy, pain-free means of obtaining popular support for the regime. Consequently, this strategy strengthened the populist features of the social welfare system.

This legacy discouraged the Sadat government from adopting a developmental state strategy, unlike that in East Asian countries (World Bank 1993) or Mexico (Hansen 1971). The developmental state model assumes the autonomy of a bureaucracy, which was protected from excessive pressure from interest groups and politicians, and could facilitate a credible commitment to economic growth in the long term.

The East Asian developmental states gave substantial well-designed export subsidies to industries they favored and granted tariff rebates that cheapened imported raw materials and machinery. States intervened to systemize economies through indicative (suggestive) planning – that is, planning via subsidies, grants and tax inducements rather than state fiat. States regulated the entry of firms into key industries and restricted intercompany competition. Foreign investment was restricted and regulated (Peet & Hartwick 2009: 64).

Authoritarian leaders in East Asia utilised economic growth to justify their authoritarian rule, but their welfare programmes were underdeveloped. Mexico also adopted a developmental state model and stabilised its authoritarian regime by obtaining ‘performance legitimacy’ through high economic growth (Hansen 1971).

In contrast, Egypt possessed few incentives to boost economic growth in this way, despite the fact that it had a huge bureaucracy. Generally speaking, export-led industrialisation needed to rationalise the social welfare system and distribute more resources to education than to social welfare in order to stimulate economic development in industries for manufacturing exports. The rationalisation of the social welfare system was thought to trigger social instability, including demonstrations and riots. Indeed, the Sadat government experienced food riots in 1977 when it attempted to rationalise the food subsidy programme that was drastically expanded during the *infitah*. In the mid-1970s the government came under pressure to reduce expenditure on food subsidies. An agreement with the IMF promised that the Egyptian government would implement economic reform, including cutting subsidies for consumer goods, in return for an IMF loan. As the subsidy cuts triggered food riots in the capital city of Cairo, the government decided to suppress the riots by using the military (Sadowski 1991: 154-156). Finally, the Sadat government was forced to cancel subsidy cuts after the food riots and maintain the expansionary programme, which imposed

a heavy burden on the budget (see **Chapter 3**). Consequently, the Sadat government had to continue the expansion of the populist social welfare system, which had a negative impact on economic growth and destroyed the possibility of export-led industrialisation.

The second and third characteristic events were the absence of drastic political change (from Sadat to Mubarak) and a decline in external resources in the 1980s, respectively. The combination of these two events was peculiar to Egypt's case and the main reason why the populist social welfare system survived during the Mubarak era despite economic liberalisation measures that were implemented after the 1990s. Although President Sadat was assassinated in 1981, Mubarak succeeded him without any political change, which meant that the new government inherited the populist legacy (especially the populist social welfare system). The amount of government revenue decreased from approximately 60% of GDP in 1981 to only half of that in the late 2000s (Soliman 2011: 3). Although the government needed to retrench the populist welfare system that had been reinforced during the Sadat era, it was faced with a dilemma. Drastic economic and social reforms might contribute to economic growth by reforming the economic structure (from *etatism* to an open economy) and rationalising the social welfare system. In addition, economic growth might be a new source for legitimacy (the developmental state strategy). However, these reforms were expected to be painful for the Mubarak government, as they would destroy the populist legacy, which legitimised its rule. The government feared that drastic reform would trigger popular protests, like the food riots in 1977. However, the populist legacy continued to have a negative impact on both the exchequer and the economy. As the government's only way of preserving its legitimacy was preserving populist welfare provision, the government chose this route despite the negative financial impact. As the *infatih* changed the political structure with a shift of the ruling coalition (from pro-labour to pro-capitalist), organised labour was marginalised in the political structure. However, as organised labour was co-opted into the corporatist structure, it did not cut its ties with organised labour and distributional justice was still a source of legitimacy. The Egyptian authoritarian regime could be characterised as 'post-populist authoritarianism' (Hinnebusch 2006).

This contrasted with the situation in Latin American countries, which experienced drastic political change (i.e., coup d'état) and returned to bureaucratic authoritarianism. Argentina and Brazil went through “the end of the period of extensive, horizontal industrial growth based on substitution for imports of finished consumer goods” (O'Donnell 1973: 57-58). Simultaneously, technocrats, whose presence in political decision-making had increased in this stage of industrialisation, had a significant role in public policies (especially economic policy). They began to regard such industrialisation policies as one of the biggest obstacles to furthering economic growth. In order to remove such obstacles, they were allied with military technocrats and overthrew the existing 'populist' regimes. After this coup d'état, technocrats had an incentive, which was based on neo-liberal philosophy, to encourage foreign capital investment (O'Donnell 1973).

As such economic reform made progress, the retrenchment of social welfare programmes was noticeable in Latin America. In Chile, the establishment of the Pinochet government had a significant impact on social welfare programmes. His government changed the ISI model and adopted a neo-liberal economic policy in response to the assertion of the business class. The economic reform was radicalised by technocrats, who advocated the neo-liberal doctrines of Milton Friedman. In spite of opposition within the government (e.g., social bureaucrats and a military junta), they shifted the budget for social protection to targeted anti-poverty programmes (Haggard & Kaufman 2008: 107-110). “Overall cuts in social spending meant substantial losses for families just above the poverty line, who depended on state-sponsored social protections to maintain their standard of living. As a consequence, inequality and poverty increased in Chile, despite high growth rates achieved in the late 1970s and again in the second half of the 1980s” (Haggard & Kaufman 2008: 108). Furthermore, in the 1980s, the government began to restructure the pension system. In the 1990s these reforms were known as the 'Chilean model' and became an important point of reference for debates on welfare reform in Latin America. In Brazil, the military government utilised the rationalisation of social welfare programmes as a tool for controlling its opponents. Cash benefits to informal-sector workers remained minimal, in comparison with

formal-sector workers and civil servants (Haggard & Kaufman 2008: 100-103). In these countries, a change in authoritarian leaders enabled the new leaders to cut their ties with populist institutional legacies, such as friendship with organised labour. Thus, the leaders in the Latin American countries could implement drastic social welfare reforms in exchange for economic growth, as **Hypothesis 1** anticipated.

The combination of the two events – the absence of drastic political change (from Sadat to Mubarak) and a decline in external resources in the 1980s – had a significant impact on the long-term relationship between competitive elections and populist welfare provision in a different way from what **Hypothesis 2** anticipated. First, a decline in external resources prevented the government from increasing populist welfare provision by exploiting external resources. This meant that the government lacked sufficient resources to use in elections as ‘pork barrel’ politics with a specific social group. Second, the absence of dramatic political change made it difficult for the Mubarak government to abandon the populist legacy by implementing drastic social reform. This choice meant that the Mubarak government reduced the possibility of increasing resources for the expansion of the populist social welfare system through economic growth. As Haggard & Kaufman (2008) explain, political liberalisation under authoritarian rule promoted the expansion of the social welfare system in several Latin American countries. In Brazil, the gradual political liberalisation strategy had a positive effect on redistribution and the development of social welfare programmes. In 1979 the government established a programme to expand medical clinics in impoverished rural areas and enlarged the free healthcare services it offered to all citizens. By the end of the 1970s, more than 90% of the population was covered by the social security and healthcare services. Economic growth enabled some Latin American governments to expand their social welfare systems. Developmental states in East Asia also successfully expanded their social welfare systems by using the fruits of economic growth.

In contrast, Egypt’s authoritarian government continued to adopt a populist distribution strategy under conditions of fiscal restrictions and limited economic growth. Although the

government continued to spend on populist welfare provision for elections (as predicted by **Hypothesis 2**), a decline in distributive resources made it difficult to deliver sufficient benefits to electorates and revealed a failure in the social welfare system – enduring fiscal misallocation, as Markus Loewe (2000) points out. The social welfare system could not always provide benefits to those who really needed them. Some scholars claim the Egyptian social welfare system was unfriendly to the vulnerable (Loewe 2000). Others assert that the lack of a long-term strategy eroded the middle class. Most people in the middle class were neglected despite their economic difficulties. The social welfare system had only insufficient resources to protect them from various types of social risks. Accordingly, these people were pushed into the ranks of the urban poor in the labour, health and housing markets (Bayat 2006). Furthermore, as most social welfare programmes benefited not only the needy but also the middle class and the upper-middle class, they did not do much to alleviate poverty. The most significant case was the food subsidy programme (see **Chapter 4**).

## 6-2. Implications for Welfare-State Studies

What implications does the present thesis have for welfare-state studies? One of the significant implications is that it ‘finds’ a third pattern of social welfare development. Periods related to social welfare development can be classified into two categories: (1) the welfare evolution period (from 1945 until the 1970s) and (2) the welfare reform period (after the 1980s). This classification can be found both in ‘orthodox’ works focusing on the welfare state in Western countries (Huber & Stephens 2001) and recent studies analysing social welfare in Latin America, Eastern Europe and East Asia (Haggard & Kaufman 2008). **Table 6.1** indicates the relationship between periods of social welfare development and politics (democracy or authoritarianism) in each case.

Classic works on the welfare state, such as Korpi (1983) and Esping-Andersen (1990), identified the first pattern of social welfare development. Although, as Esping-Andersen (1990) demonstrates, social welfare systems in Western countries can be categorised into several types,

their most significant similarity is that they experienced the dramatic expansion of social welfare systems in the welfare evolution period under democratic conditions. This period overlapped with the ‘golden age’ of capitalism (Esping-Andersen 1994; Huber & Stephens 2001), during which they enjoyed economic prosperity. As the level of globalisation at the time was lower than that after the end of the Cold War, governments could invest in the drastic expansion of social welfare systems, which led to further economic growth by stimulating consumption. At the same time, high economic growth increased the number of urban wage workers. As discussed in **Chapter 1**, democratic conditions enabled labour unions and leftist parties to play a critical role in developing their social welfare systems at this stage of welfare-state development (the power resource mobilisation model).

**Table 6.1: Relationship between Polity and Outcomes of Social Welfare Reform in Three Cases**

	Polity (Democracy / Authoritarianism)		Outcomes of Welfare Reform
	Period of Welfare Evolution	Period of Welfare Reform	
Western countries (the first pattern)	democratic	democratic	retrenchment & institutional robustness
Latin America, Eastern Europe & East Asia (the second pattern)	authoritarianism	democratic	path-dependent expansion
Egypt (the third pattern)	authoritarianism	authoritarianism	retrenchment & institutional robustness

Source: Author.

After the ‘golden age’ of capitalism, social welfare systems in Western, industrialised countries were faced with crises. Low economic growth rates encouraged their governments to rationalise social welfare systems and were thought to cause the retrenchment of social welfare

provisions. However, changes in social welfare systems are limited and path-dependent, although governments struggle to implement radical welfare reform in many cases. Also, expenditure on social welfare programmes in these countries did not always decline in the 1980s and '90s. The United Kingdom, for example, experienced an 18-year Conservative government, during which the political influence of the labour movement declined because of high employment and changes in labour laws. Many expected that the Conservative hegemony would lead to social welfare cutbacks and the retrenchment of the British welfare state. The British welfare state did however survive, although there was retrenchment in housing and pension policy (Pierson 1996: 159-163). The erosion of the welfare state is thus a myth, not a reality (Castles 2004).

Paul Pierson (1996) claims that the retrenchment of the welfare state did not change as much as many scholars expected and that the new politics of the welfare state works in a different way from the old politics – the evolution of the welfare state. He addresses the importance of 'policy feedback' when explaining the new politics of the welfare state (Pierson 1992, 1996). The development of social policy created beneficiaries and encouraged them to organise various types of interest groups, which resisted social policy reform in political arena. Democratic institutions provide interest groups with opportunities to resist social policy reform. Also, the social corporatist legacy, particularly in Germany, enabled beneficiaries of social policies to resist welfare retrenchment by their exploiting the corporatist structure. In this structure, they can easily reject the government's proposals as electoral institutions are exclusive and policy-making authority is decentralised (Green-Pedersen & Haverland 2002: 45-46). The argument addresses the importance of institutions as veto points for the retrenchment of social welfare systems in democracies.

Recent welfare-state studies reveal the second pattern of social welfare development as research interest has been expanded to non-Western countries following the 'third wave' of democratisation (Huntington 1991). Social welfare systems in Latin America, Eastern Europe and East Asia can be categorised as this pattern of the development. A significant feature of this pattern is that, as these countries experienced the period of welfare evolution under authoritarian rule, the



logic of social welfare development in these countries was different from that in Western, democratic countries. Survival strategies of authoritarian leaders played a pivotal role in the development of social welfare systems in these countries. As discussed in **Chapter 1**, political leaders adopted the organisation proliferation strategy to co-opt urban workers and peasants in Latin America and Eastern Europe, which led to the expansion of social welfare systems. In contrast, political leaders were allied with industrial capitalists and distributed rents to them in East Asia. Consequently, the political leaders did not have the incentive to expand social welfare systems. Instead, they invested in education to train highly skilled workers (Haggard & Kaufman 2008).

In the period of welfare reform, these countries experienced economic liberalisation and democratic transition. In contrast to Western countries, they expanded social welfare systems and increased social welfare expenditure after the 1980s. As explained in **Chapter 1**, economic liberalisation led governments to recognise that social welfare systems were important tools for compensating the losers in economic liberalisation. Democratic transition encouraged the loser to organise political and social movements for further welfare provisions. As democratic transitions created opportunities for subordinate actors (the launching organisations) to utilise institutional structures for their own interests, the expansion of social welfare systems was influenced by institutional legacies from the mid-twentieth century. Although scholars in welfare-state studies have widened their interest recently, from Western industrialised countries to non-Western countries (which were called the Third World), their work still has a ‘democratic bias’, as the power resource mobilisation model indicates.

This thesis overcomes this ‘democratic bias’ and reveals that the pattern of social welfare development in Egypt is distinct from both of the other two patterns. Egypt experienced the period of welfare evolution under authoritarian rule, and the survival strategies of political leaders played a pivotal role in the development of the social welfare system. Similar to Latin America and Eastern Europe, this country adopted the organisational proliferation strategy, which expanded the

social welfare system and increased social welfare expenditure. In contrast to these countries, however, the Egyptian economy had been liberalised under authoritarian rule since the 1970s. Consequently, the Egyptian social welfare system did not experience dramatic expansion during the period of welfare reform.

Interestingly, when comparing the first pattern (Western countries) and the third pattern (Egypt), both of these two instances experienced path-dependent changes in social welfare systems. It might be undeniable that the quality of social welfare programmes in Egypt is much lower than that in Western countries because of the different level of economic development in each case. In both instances, however, economic crises and neo-liberal economic reform did not lead to the drastic retrenchment of social welfare systems. As revealed in the present thesis, although the Mubarak government recognised the necessity of implementing the rationalisation of the social welfare system, it failed in carrying out drastic social welfare reform. The Egyptian social welfare system changed path-dependently and its populist features were not altered.

However, it should be noted that a causal mechanism that led to path-dependent changes in the Egyptian social welfare system was different from that in Western countries. Path dependence in Western social welfare systems can be explained by the ‘veto player’ model (Tsebelis 2002), in which veto players (e.g., labour unions and interest groups) can effectively prevent governments from implementing the institutional changes they do not want by utilising their political resources. In contrast, the ‘veto player’ model was not applicable to the Egyptian case. An informal institution – the populist social contract – changed the preferences of authoritarian leaders and discouraged them from implementing drastic social welfare reform that would ensure their survival. As discussed in **Chapter 1**, under authoritarian rule, popular reactions – whether organised movements or unorganised protests – function as a signal, and authoritarian leaders reactively choose their survival strategy in response to the reactions. Take the 1977 food riots, for example, in which a large number of unorganised citizens participated in demonstrations against subsidy cuts. An announcement on such cuts triggered these riots. The food riots damaged the legitimacy of the

Sadat government and led it to cancel the subsidy cuts. Moreover, authoritarian leaders chose their precautionary strategy, avoiding drastic reforms in advance, especially after the food riots. As revealed in **Chapter 4**, the Mubarak government drastically expanded the food subsidy programme when faced with steep food price hikes in the 2000s. This was because the Mubarak government recognised that such price increases would trigger popular discontent and demonstrations against the government. Thus, it attempted to maintain social order by delivering food at reasonable prices to the populace via food subsidies. As explained in **Chapter 5**, the robustness of the public employment programme can be explained by the same logic. Whereas the government privatised public enterprises and reduced the number of workers in them, it simultaneously increased the number of workers in the government sector. The government's choice was thought to be focused on compensation for restructuring public enterprises. Although the government was afraid of strikes organised by trade unions, which posed a potential challenge to authoritarian rule, it was also afraid that the increasing numbers of unemployed citizens would join wider demonstrations against the government. As a result, such path dependence led to a misallocation of resources, which eroded the basis of authoritarian rule.

These different causal mechanisms can be explained by the concept of 'equifinality' (George & Bennett 2005), which is also referred to as 'multiple, conjunctural causation' or just 'multiple causation'. "Equifinality is the idea that there are multiple causal paths to the same outcome" (Mahoney & Goertz 2006: 236). This concept indicates that there are two separate paths to robust and enduring social welfare systems. In democracies, institutions provide the beneficiaries of social welfare programmes with opportunities to resist the retrenchment. Democratic environments enable their resistance to the retrenchment because democracies allow people to create and participate in associations, which exert pressure on governments. In addition, interest groups often send their representatives to legislative bodies, through which they may be able to achieve what they want to do. In contrast, institutions did not always provide the people with opportunities to prevent retrenchment in Egypt's case, which was considered authoritarian. There, the parliamentary system

is weak and ineffective. The lack of effective democratic institutions enhanced the importance of collective action outside the institutions (such as demonstrations and protests) in the politics of welfare retrenchment in Egypt. This thesis thus revealed that there is another dynamics of path-dependent change in social welfare systems, which is applicable only to authoritarian cases.

### 6-3. A Summary of the Argument

In summary, the implications of the present thesis for theory can be classified into two categories. The first set of implications is related to historical institutionalism. The thesis reveals that informal institutions (like the populist social contract) had a significant impact on the development of a social welfare system under authoritarian rule as well as that in democracies. The two hypotheses (discussed in **Chapter 1**) assume that political leaders under authoritarian rule exercise discretion over how they exploit social welfare systems for their survival. In contrast, the thesis shows that Egyptian authoritarian leaders chose their survival strategies, taking into consideration an informal institutional legacy – the populist social contract in this case. The populist social contract prevented the Mubarak government from rationalising the social welfare system (**Hypothesis 1**) or exploiting it for elections (**Hypothesis 2**). Additionally, the timing and sequence of change in Egyptian political and economic structures made the institutional legacy more critical for path dependence in the social welfare system during the Mubarak era.

The second set of implications is related to welfare-state studies. The thesis overcomes such bias and reveals that the pattern of social welfare development in Egypt is distinct from that in Western countries (the first pattern) and newly democratised countries in Latin America, Eastern Europe and East Asia (the second pattern). In the Egyptian case, survival strategies played a pivotal role in changes that occurred in the social welfare system both in the period of evolution and of reform. Also, it reveals that, although pathways of social welfare development and the quality of welfare provisions in Western countries and Egypt were quite different from each other, the outcomes of welfare reform since the 1980s were similar. In Western democracies, path dependence in social

welfare systems was primarily caused by pressure from below. Beneficiaries and their organisations (or interest groups), who were veto players, exerted pressure through parliaments and political parties to prevent the achievement of public policies that were not favourable to themselves. In contrast, authoritarian leaders in Egypt chose their survival strategies and avoided drastic welfare reform in response to signals of popular reactions, such as organised movements and spontaneous riots. Consequently, the causal mechanism featured in this thesis led to a similar outcome to that in democratic welfare states ('equifinality').

## Conclusion

This thesis reveals how and why the social welfare system in Egypt was altered during the Mubarak era. The existing literature anticipated that structural changes to the political and economic systems would have a significant impact on the social welfare system during the Mubarak era and alter its role. It suggested two hypotheses. The first hypothesis is that economic liberalisation would change the role of social welfare systems from populist provision to a minimal instrument for poverty alleviation (**Hypothesis 1**). It assumes that economic liberalisation, which was promoted by international donors such as the IMF, the World Bank and the United States, would accompany the rationalisation of the social welfare system and that this strategy of rationalisation would be also benefit the authoritarian leader, Mubarak. Obeying such prescriptions would allow the Mubarak government to enhance the reputations of these international donors. At the same time, the rationalisation would improve the efficiency of the social welfare system, which might ease popular discontent and enhance the durability of the authoritarian regime. The second hypothesis is that political liberalisation, in the form of the introduction of quasi-competitive elections in particular, would encourage the authoritarian leader to exploit the social welfare system as the ‘machine’ for distributing generous welfare benefits to specific social groups to win quasi-competitive elections (**Hypothesis 2**). This hypothesis assumes that, as the multiparty electoral system made elections more competitive even under authoritarian rule, the authoritarian leader would have to take measures to win elections more actively than before.

This thesis demonstrated that, in contrast to these two hypotheses, an informal institution – the populist social contract – prevented the Mubarak government from implementing drastic welfare reform and led to path dependence. The government used the social welfare system principally as a means of preserving political stability or of avoiding instability in the short term. Although the rationalisation of the social welfare system was advocated by international donors and the government seemingly initiated such reforms, these reforms did not result in significant reductions

in social expenditure. Despite a decline in external resources, the government continued to avoid fully engaging in deep structural reform.

This path dependence can be explained by an unresolvable dilemma that the Mubarak government was caught in. Economic liberalisation allowed the government to create a new ruling coalition with the business class. It needed to deliver welfare benefits more efficiently to the needy through the rationalisation of the social welfare system. However, the government still relied on a legacy of claims to redistributive justice for its legitimacy, which made it difficult to implement drastic reforms that could improve efficiency. As the government feared direct political protests, it increasingly drove the social welfare system as a mechanism to compensate for the effects of liberalisation by spending heavily on the distorted social welfare system. The strategy was itself a fundamental contradiction and inherently unsustainable. As a result, a decline in distributive resources revealed a failure in the social welfare system – enduring fiscal misallocation and neglect of social problems, such as unemployment and poverty.

This research draws two main conclusions. First, although the informal institution – the populist social contract – made a difference between what these two hypotheses anticipated and the actual change that occurred in the Egyptian social welfare system, the original timing and sequence of change in Egyptian political and economic structures made the institutional legacy critical for the change in the social welfare system during the Mubarak era, as historical institutionalism suggests. In Egypt's case, the following sequence of events that resulted after the populism sustained by Arab socialism played an important role in path-dependent change, unlike what the two hypotheses anticipated: (1) an increase in external resources in the 1970s, (2) the absence of drastic political change (Mubarak's succession following the Sadat regime) and (3) a decline in external resources. Second, this thesis reveals a causal mechanism of change in social welfare systems under authoritarian rule that are different from those of democracies. In democracies, the development of social welfare systems creates beneficiaries and interest groups that exert pressure on the government. This process causes path dependence, as many studies on historical

institutionalism have revealed. In contrast, the populist institutional legacy, which had been established in the Nasser era and reinforced in the Sadat era, encouraged the authoritarian government to take measures to avoid political instability in Egypt's case. The government engaged in anticipatory measures, avoiding drastic reforms that would trigger anti-government protests. This tendency was reinforced especially after the food riots in 1977. Although the government spent much money on social welfare, this strategy failed to alleviate popular complaints about the social welfare system.

Simultaneously, the findings of this research contribute to theoretical development both in historical institutionalism and welfare-state studies. The first set of implications concerns historical institutionalism. This thesis reveals that informal institutions (like the populist social contract) had a significant impact on the development of a social welfare system under authoritarian rule as well as that in democracies. This informal institution altered the preferences of political leaders and their survival strategies and made the actual changes in the Egyptian social welfare system different from the anticipated causal mechanisms (**Hypothesis 1** and **Hypothesis 2**). Additionally, this thesis demonstrates that, as historical institutionalists have shown, the original timing and sequence of change in the Egyptian political and economic structures made the informal institutional legacy critical for the change in the social welfare system during the Mubarak era.

The second set of implications pertains to welfare-state studies. As the existing literature on the welfare state has focused generally on democratic cases (the 'democratic bias'), it excludes authoritarian cases (including the Egyptian case) from the analysis. This thesis reveals that the pattern of social welfare development in Egypt is distinct from that in Western countries and newly democratised countries in Latin America, Eastern Europe and East Asia. In contrast to the other two patterns, Egypt developed a social welfare system without a democratic transition. Although there were few obstacles for political leaders in Egypt in comparison to those in democratic countries, a populist institutional legacy restricted their behaviour and encouraged them (President Mubarak in particular) to maintain populist welfare provision, despite the inefficiency of the existing, populist



social welfare system. As the existing literature has paid scant attention to the dynamics of social welfare systems under authoritarian rule, this finding provides a new perspective on studies on the welfare state.

Also, this thesis focuses on the concept of 'equifinality'. Although pathways of social welfare development in Western countries and Egypt were quite different from each other, outcomes of welfare reform since the 1980s were similar. In Western democracies, path dependence in social welfare systems was primarily caused by pressure from below. Beneficiaries and their organisations or interest groups (i.e., veto players) exerted pressure through parliaments and political parties to prevent the achievement of public policies that were not favourable to themselves. However, the Egyptian case lacked the conditions that might lead to such path dependence. As Egypt is an authoritarian country, it lacked an open political arena that could enable interest groups to influence the government. Nevertheless, the Mubarak government chose to maintain an inefficient social welfare system. Authoritarian leaders in Egypt chose their survival strategies themselves and avoided drastic welfare reform in response to signals of popular reaction, such as organised movements and spontaneous riots. Although the causal mechanism that worked in Egypt was different from that in Western industrialised countries, both Egypt and Western countries achieved a similar outcome.

It should be noted that this research has several limitations. First, this thesis explained what impact the logic of the social contract had on social welfare programmes, focusing on two 'old' types of social welfare programmes (i.e., the food subsidy programme and the public employment programme) that were established during the Nasser era. Therefore, this research does not consider how the Mubarak government exploited new types of social welfare programmes (represented by the SFD) that were established in the 1990s for the purpose of poverty alleviation. It is expected that these new social welfare programmes would be comparatively free from the logic of the 'populist' social contract. Although this thesis omits such new programmes from the analysis as it aims to examine path dependence on the Egyptian social welfare system, investigating these

programmes would shed more light on distributional politics in Egypt and enable us to comprehend the whole social welfare system in the country.

Second, this thesis does not focus on clientelism and patronage. As discussed in **Chapter 1**, clientelism is still widespread and plays a critical role in distributive politics in MENA countries (including Egypt). In the MENA region, for example, people expect MPs to be a mediator between them and the state for their individual interests (such as government licenses, public housing and admission to universities) (Lust 2009). Nonetheless, this thesis omits clientelism from the analysis for two reasons. First, social welfare programmes are strongly connected with the universal values, such as social rights, however vacant these concepts may be, especially under authoritarian rule. Additionally, as social welfare programmes benefit most of the population, they are rarely used as a means for clientelism. Although patronage in social welfare benefits can be observed at the micro (or street) level, such individual patronage has little impact on changes in the social welfare system. Therefore, this thesis has excluded patronage and clientelism from the analysis.

Third, this research focused only on the social welfare programmes offered by the government, ignoring private welfare activities. It might be undeniable that cultural and religious factors have a significant impact on the content of social welfare in a country. More specifically, Islamic initiatives for social welfare (such as *waqf* and *zakah*) have played an important role in poverty alleviation in MENA countries. Recent studies reveal that private welfare activities, particularly those provided by faith-based organisations, have made significant strides in poverty alleviation in MENA countries (Baylouny 2010; Clark 2004; Jawad 2009). However, analysing the relationship between cultural and religious factors, and social welfare is beyond the aim of this thesis. Therefore, such factors were not analysed here.

How can Egypt replace the populist ‘social contract’ with a new one? Although this research does not discuss the social welfare system changes that occurred after the ‘Arab Spring’, the findings suggest how Egypt can escape from the ‘fetters’ of the populist social contract. As discussed in **Chapter 6**, the original timing and sequence of political and economic changes made

the social contract' more critical. Two elements might play a significant role in the replacement of the social contract: (1) a drastic political change and (2) a new source for social welfare.

Concerning the first element, Egypt experienced two political shifts – the January 25 Revolution in 2011 and the 2013 coup d'état. Although achieving social justice via the social welfare system is still one of the most important issues for the Egyptian government, it has begun to improve the efficiency of the social welfare system. Let us consider the food subsidy programme, for example. As explained in **Chapter 4**, the Mubarak government could not change the universalist feature of the programme for fear that such a reform would trigger anti-government demonstrations (such as the 1977 food riots). During the Mubarak era, therefore, the efficiency of the programme was restricted because of this universalist feature, which meant that every citizen could access subsidised *baladi* bread. However, this universalist feature has been altered since the 2011 revolution. The Morsi government started a pilot programme of introducing smart cards to control the ration system of subsidised foodstuffs (especially *baladi* bread) in Port Said in 2013. The smart cards enable only cardholders to purchase subsidised bread. Following this initiative, the Sisi government attempted to introduce the smart card system to the whole country in April 2014 (Anon. 2014). It is expected that this reform will improve the efficiency of the food subsidy programme. At the same time, their efforts might indicate that the Egyptian government has gradually emerged from the 'fetters' of the populist 'social contract'.

The other element is whether the government can find (or make) a new source for the expansion of the social welfare system. Now that the country does not have enough external resources to expand the social welfare system, it needs to create a new source for social welfare through economic growth. As indicated by cases in Latin America, Eastern Europe and East Asia, high economic growth enables governments to rationalise and reform social welfare systems, which can improve the quality of social welfare. However, the growth rates of the Egyptian economy are not high. It seems that whether the Sisi government is able to achieve high economic growth and distribute its benefits to the populace may play an important role in the successful

replacement of the social contract and the stabilisation of a new one.

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